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MANAGING RETAIL EVENTS

Case Kraft Foods

Master's Thesis

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ABSTRACT

Nowadays, an increasing fraction of marketing budgets is spent on sales promotion. The term retail event is used to refer to entities of coincidentally executed promotional activities, such as price-cuts, features and displays. As the grocery retail industry is becoming more and more competitive, also sales promotion should be examined critically, because many retail events are unprofitable in terms of incremental profits and as their impact on the supply chain performance can be dramatic.

The research problem of this study is what determines retail event performance in the supply chain and how can it be improved by supply chain collaboration. The objectives of the study are to give an overview of the existing research on retail events and to critically review retail events as a logistical and organizational challenge, to build a framework for analysing event performance, and to apply the framework to the situation of the case company, a global food manufacturer, giving some guidelines for collaborative retail event management.

The theoretical part of the study is based on a literature review of promotional activities, their impact on the supply chain and supply chain collaboration in the grocery industry. The empirical part of the study was conducted as a qualitative case study and is based on 16 half-structured theme interviews and participative observation. Also quantitative analysis of market data was used.

In the literature, brand switching, store switching, category expansion and purchase acceleration were named as mechanisms of promotional sales. An additional fifth mechanism, variant switching, was included in the framework developed in this study. Depending on the category characteristics and market situation, these mechanisms were found to have eight different positive and negative side effects on the incremental profits of manufacturers and retailers. On the cost side, added supply chain costs resulting from stock-outs, excess inventory and special event requirements must be taken into account as incremental event costs in addition to the marketing expenditures. Supply chain collaboration is needed to ensure successful retail events at a minimal cost.

In the empirical part of the study, applying the framework developed based on the literature it was analysed how the promotional mechanisms work in the salted snacks category. The conclusion was that retail events fit well to the snacks category and negative side effects were small. The biggest challenges in the case company's current retail event process were found to be insufficient internal communication, fragmented event information, lack of systematic event analysis, and delays in the packaging material deliveries. Two new tools, event calendar and retail event process chart, were developed to support internal and inter-company collaboration in retail event management. In longer-term, tighter cooperation is needed not only with customers but also with the key supplier.

Keywords: sales promotion, retail event, supply chain collaboration, CPFR, ECR, grocery industry

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Kampanjanhallinta päivittäistavarakaupassa – Case Kraft Foods

TIIVISTELMÄ

Nykyisin yhä suurempi osa markkinointibudjeteista käytetään myynninedistämiskampanjoihin, jotka koostuvat samanaikaisista markkinointitoimenpiteistä, kuten hinnanalennuksista, kauppojen lehti-ilmoittelusta ja erikoisesittelyistä. Kilpailun kiristyessä elintarviketeollisuudessa ja päivittäistavarakaupassa myös kampanjoita pitää tarkastella kriittisesti, koska monet niistä ovat lisätuottojen valossa kannattamattomia ja niiden vaikutus toimitusketjun suorituskyvylle voi olla dramaattinen.

Tutkimusongelma on, mikä määrittää päivittäistavarakaupan kampanjoiden menestyksen ja kuinka sitä voidaan parantaa toimitusketjuyhteistyöllä. Tutkimuksen tavoitteet ovat antaa yleiskatsaus kampanjakirjallisuuteen ja arvioida kriittisesti kampanjoita logistisena ja organisatorisena ongelmana, rakentaa kirjallisuuskatsauksen pohjalta viitekehys kampanjatulosten arviointiin ja viitekehystä soveltamalla analysoida case-yrityksen, globaalin elintarvikevalmistajan, tilannetta.

Tutkielman teoreettinen osuus perustuu kirjallisuuskatsaukseen markkinointitoimenpiteistä ja toimitusketjuyhteistyöstä elintarviketeollisuudessa. Empiirinen osa on kvalitatiivinen case-tutkimus, joka perustuu 16 puolistrukturoituun teemahaastatteluun sekä osallistuvaan havainnointiin. Lisäksi markkinatietoja analysoitiin myös kvantitatiivisesti.

Kirjallisuudessa brandin vaihto, kaupan vaihto, kategorian kasvu ja ostojen tihentäminen mainitaan kampanjamyynnin lähteiksi. Tässä tutkimuksessa kehitettyyn viitekehykseen lisättiin viides mekanismi, variantin vaihto. Tuoteryhmän ominaisuuksista ja markkinatilanteesta riippuen mekanismeilla havaittiin kampanjoiden lisätuottoihin kahdeksan erilaista positiivista tai negatiivista sivuvaikutusta. Lisäkustannuksia arvioidessa pitää markkinointikustannusten ohella huomioon puutostilanteista, liikavarastosta ja kampanjoiden erityisvaatimuksista aiheutuvat ylimääräiset toimitusketjukustannukset. Toimitusketjuyhteistyötä tarvitaan onnistuneiden kampanjoiden toteuttamiseksi minimikustannuksin.

Tutkimuksen empiirisessä osassa kirjallisuuden pohjalta kehitettyä viitekehystä soveltamalla analysoitiin suolaisten snacksien tuoteryhmää, johon kampanjoiden havaittiin sopivan hyvin ja negatiivisten sivuvaikutusten jäävän pieniksi. Suurimmat haasteet case-yrityksen nykyisessä kampanjaprosessissa ovat riittämätön sisäinen kommunikaatio, sirpaloitunut kampanjatieto, systemaattisen arvioinnin puute sekä viivästykset pakkausmateriaalitoimituksissa. Kaksi uutta työkalua, kampanjakalenteri ja kampanjaprosessikaavio, kehitettiin tukemaan sisäisessä ja yritysten välisessä yhteistyössä tapahtuvaa kampanjanhallintaa. Pidemmällä tähtäimellä tiiviimpää yhteistyötä tarvitaan asiakkaiden ohella myös tärkeimmän tavarantoimittajan kanssa.

Avainsanat: myynninedistäminen, kampanja, toimitusketjuyhteistyö, CPFR, ECR, päivittäistavarakauppa, elintarviketeollisuus

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1 Introduction

During the last fifteen years the retail industry has been going through a radical transformation both globally and in Finland in particular. The market environment seems to have permanently become more competitive, turbulent and unpredictable than before. An accelerated rate of change, increasing customer and consumer requirements, such as the trend towards healthier nutrition, product proliferation, shorter product life-cycles, increased global competition even in the Finnish market, price competition and shrinking margins all characterize the new situation (Finne & Kokkonen 1998, 18; Vokurka & Lummus 1998, 42; Uusitalo 2005, 8). The traditional brand manufacturers have also had to face the rapid growth of private label market share (Uusitalo 2005, 39-40).

From the logistics perspective, supply chains are currently becoming more complex as the global players are centralizing their operations, like warehousing and production, in the search for efficiencies and cost savings as a response to the challenging market situation. For more remote markets, such as Finland, this is not necessarily a positive development: even more pressure is put on coordination and integration of supply chains to minimize the negative impact of longer distances and lead times on delivery reliability and inventory turnover. For example, it is common that all of a manufacturer's Nordic operations except sales take place in Sweden or in other countries even further away from Finland (Uusitalo 2005, 70).

To succeed, manufacturers and retailers have started different kinds of supply chain management and collaboration initiatives. In the food and beverage industry, Efficient Consumer Response (ECR) and its later, more sophisticated version, Collaborative Planning, Forecasting and Replenishment (CPFR), are the most famous and popular ones. Because different kinds of retail events have become a more and more important and widely used tool for manufacturers in the fierce market share battle at the same time with other recent developments, and a bigger fraction of marketing budgets than ever before is now put in different kinds of sales promotion activities, they have got special attention in several of the collaborative pilot projects. As a matter of fact, optimizing promotions may be the most important one of the demand management concepts of ECR for manufacturers and retailers to internally and collaboratively work on because much promotional activity is acknowledged as wasteful, promotions are understood to be complex to analyse and a more thorough analysis

of the effect of the promotions on consumer behaviour can yield beneficial results (GCI 2005). This study is devoted to a deeper analysis of retail event strategies and processes.

1.1 Motivation of the Study

There are two big factors why retail events shall be examined very critically: First of all, Abraham and Lodish (1990) found out in their study that only 16 percent of trade promotions were profitable based on incremental sales, which means that companies should be a lot more selective in terms of what kinds of events to execute and how. For example, forward buying and cannibalization are both mechanisms that may corrupt the promotional results. Secondly, the impact of the retail events on the supply chain performance can be dramatic: the effect of lost sales and goodwill due stock-outs, sell-out and scrapping costs due to excess inventory and other added supply chain costs can reveal unprofitable events that may seem profitable with traditional measures.

Largely for the above mentioned reasons, the stereotypical attitude among logistics and supply chain professionals and academics has been that retail events, such as temporary price cuts, are a problem and preferably should be eliminated as they increase demand variability. One of the best-known approaches to solving the logistical problems and challenges caused by promotions is the EDLP (Every Day Low Price) pricing policy that suggests keeping the prices constantly on the same competitive level instead of giving trade promotions (Finne & Kokkonen 1998, 261). When following this principle, the demand is a lot more even as there are no incentives for the wholesalers and retailers to place surprisingly sized orders. Levy and Weitz (2004, 478-480) present EDLP strategy also as a viable option for high/low pricing strategy towards consumers. They assume EDLP makes also the consumer demand a lot more uniform.

Whereas EDLP strategy may work well with some commodity products, in other product categories retail events may be an essential way to boost overall sales, and for example discontinuing price cuts is likely to drop the sales significantly. Another important aspect is that EDLP pricing policy towards wholesalers and retailers does not necessarily need to mean the same policy towards consumers and abandoning retail events. For instance, Lummus et al. (2003, 321) suggest offering the trade customers an alternative where a fixed price is set which reflects both the average weighted value of promotional spending and supplier savings resulting from less variable demand. On consumer level, retail events including temporary price cuts could still be continued. In this case the role of sales force would change from

convincing the retailers to buy as much as possible by offering discounts to a consultant role where the manufacturer's sales force would serve the customer as a category and event planning specialist and give advice on what kind of events to execute by the promotional support included in the lower prices. In this case the variability in consumer sales due to retail events would naturally still strain the supply chain, but the problems of forward buying and diverting would be solved.

In the conservative world of grocery retail it is quite difficult to see a major change in promotional pricing logic to happen in practise, though, at least in short term. This is because currently the initiative and financing to most of the retail events comes directly from the manufacturers, and in the new model the manufacturer's possibilities to control the retail events would be quite limited. Thus the starting point of this study is the assumption that retail events and price cuts both on customer and consumer levels will remain a dominating practise also in the future and other ways to ease the situation shall be found. Additionally, whatever happens in terms of pricing strategies, the new retail event management skills will also be useful in handling demand fluctuations caused by seasonality.

The trade-off between additional promotional sales and increased demand variability due to retail events and other retail event decisions are an every day concern for the members of the grocery retail supply chain. In an ECR scorecard based survey on maturity of ECR implementation in Finland in 2000, it was found out that internal event planning and event execution had been quite well deployed, but especially event analysis still needed a lot of improvement. Joint event optimization was only in the early implementation phase, and thus the area still needs lots more attention (Home 2003, 15). The results regarding supply chain collaboration of a more recent study on the development of supply chains in the Finnish retail industry show that today promotions and other marketing activities are the most widely collaboratively planned issue. However, when enquiring areas where collaboration should be increased in the future, demand forecasting, retail events and category planning got the highest scores. It seems that although collaboration in promotion planning is already now taking place relatively commonly, there still is plenty of room for improvement (Uusitalo 2005, 55-57).

Clearly there seems to be demand for knowledge on collaborative retail event management in the consumer goods industry, and the motivation of this study is the real need for advice and guidelines for finding an optimal promotional strategy and working practise. There is a lot to

gain with the right kind and sufficient levels of internal and external collaboration in the supply chain: more efficient and effective processes and less duplication, better forecast accuracy, higher service level, less stock-out situations, less sell-out and scrapping costs, and consequently better profitability.

1.2 Research Problem and Objectives

Traditionally promotions and other kinds of retail events have mainly been discussed only in marketing literature. The supply chain and logistics perspective has been integrated very seldom in the academic research. The articles by Vokurka and Lummus (1998) and Lummus et al. (2003) present their pioneering research on the impact of the marketing activities on the supply chain. This study hopes to build on their work concentrating more on the mechanisms of how retail events affect the demand patterns and how collaborative actions taken by the supply chain members can help in retail event management.

The research problem of this study is *what determines retail event performance in the supply chain and how can it be improved by supply chain collaboration.* In order to provide an answer to this question, three objectives have been set. The first objective is to give an overview on the existing research on retail events and retail event management and to critically review retail events as both a logistical and organizational challenge. The second objective is to build a framework for analysing retail event performance. The third objective is to apply both the framework developed in this study and retail event management guidelines to the new challenging situation of Kraft Foods in salted snacks category. This illustrates how a light, smart and collaborative process for retail event management could work in practice.

1.3 Approach, Methodology and Structure of the Study

As the biggest swings in consumer demand are typically caused by different kinds of promotional activities (VICS 2004), this study focuses on them and thus also the term retail event is primarily used to refer to promotions, marketing campaigns or any other **entities of coincidentally executed promotional activities**. However, anything that causes the demand pattern to deviate can be seen as a retail event. For example, new product introductions, product de-listings, seasonal products and changes in package sizes or design, or even entirely external factors, such as strikes in the business environment, can all lead to unusual demand patterns and require special attention.

The study concentrates on sales promotion, but in particular on promotional events directed towards consumers, their effect on the demand levels and variability, and ways to better manage and coordinate the events both commercially and logistically. Trade promotion often goes hand in hand with consumer promotion and also affects the short-term demand levels significantly, so it is included in the discussion as a part of retail event mechanism. Advertising is included only as much as needed to provide the reader with a proper big picture of a company's marketing activities.

Although the context of the study is grocery retail in Finland, the results and the framework can be generalised to other similar markets, and to a certain extent to speciality goods retailing as a lot of the elements are similar. It is good to keep in mind that the collaborative processes, working practises and other recommendations that will be discussed later are also applicable to any non-promotional events that cause the demand pattern to deviate. They can be useful for example in managing new product introductions or seasonal demand fluctuations.

The theoretical part of the study is a literature review of previous literature (mainly academic but some consulting literature also) on promotional activities, their impact on the supply chain and supply chain collaboration in the grocery industry. The empirical part of the study was conducted as a qualitative case study and is based on 16 semi-structured theme interviews among the people participating in the retail event processes in different country organizations in the case company and one of its customer organizations. The interview structure was tailored for each of the interviewee groups. For example, the topics that were used as loose guidelines for the interviews with sales and supply chain personnel can be found in appendices 1 and 2. Complementary information was gained in numerous informal discussions with the interviewees and other employees of the case company during the eight months I was working for the organization in its supply chain department where I was participating actively also in the retail event process. Thus the methodology used has also got characteristics of participative observation and a follow-up study. In addition to the qualitative analysis, also quantitative analysis of market data (measured by ACNielsen) was used to analyse the results of retail events.

The paper begins with an introduction to promotional activities and differences in promotional response between brands and categories (Chapter 2). In chapter 3 the events are discussed as a logistical and organizational challenge, with an emphasis on the impact of

retail events on supply chain performance. The most famous supply chain initiatives in the grocery industry, ECR and CPFR, and their models for collaboration are also illustrated. Integrating the findings of the literature survey presented in the previous chapters, guidelines for retail event management are put together. In chapter 4 a framework for analysing the results of retail events is built on the mechanisms of promotional sales and incremental revenue. The case study on Kraft Foods Finland can be found in chapter 5. Chapter 6 contains the recommendations for the case company and chapter 7 ends the paper with conclusions and topics for future research.

1.4 Terminology

80/20 rule – a pattern that many economic, sociological, and natural phenomena have empirically been observed to follow; also known as Pareto principle as first reported by Vilfredo Pareto in terms of 80 percent of wealth being concentrated in 20 percent of a population (Sanders 1988, 37); in this context for example 20 percent of the customers bring 80 percent of sales

Case – the sales unit that the wholesaler buys from the manufacturer, normally includes several consumer units, eg. in the potato chips category a case normally consists of 12-18 consumer units (bags)

Consumer unit – the sales unit that consumer buys from retailer, eg. a bag of potato chips

Copacking – contract packaging, eg. outsourced process of building displays from sales units or adding promotional stickers

CPFR – Collaborative Planning, Forecasting and Replenishment

Customer – in this study, the term customer always refers to the next tier customer in the supply chain, eg. a manufacturer's customer is not a consumer but a wholesaler or a retailer (the term consumer is always used of end-customers)

Display – variety pack of cases ready for shipment direct to the retailer and being placed into the supermarket as such, eg. either several sales units of a product or a mix of many products packed on a pallet or other kind of rack

ECR – Efficient Consumer Response

EDLP – Every Day Low Pricing, a pricing strategy where temporary discounts are not utilized

Merchandising – all the sales activity taking place in the retail outlets except personal selling

POS – Point of Sales

Promotion – all the persuasive communications activities employed by businesses or other organizations, including advertising,

personal selling, publicity, sales promotion, sponsorship and point-of-purchase communications (Rosenbloom 2004, 358)

Retail event – in this study the term refers to a promotion, a marketing campaign or any entity of coincidentally executed promotional activities, eg. a temporary price-cut combined with end-of-aisle displays and retailer's advertisement in a news paper; more generally anything that causes the demand pattern to deviate

Supply chain – "a set of three or more entities (organizations or individuals) directly involved in the upstream and downstream flows of products, services, finances, and/or information from a source to a customer" (Mentzer et al. 2001, 4)

2 Marketing Activities in Grocery Industry

This chapter is devoted to giving some general background information on promotional activities based on a literature review. First of all, the most important promotional activities are described and classified. Secondly, the key reasons for and against the use of promotions and other retail events will be discussed. Thirdly, the concept of promotional elasticity is covered in detail to give an idea why the promotional activities are especially important in some product categories.

2.1 Classification of Promotional Activities

Several ways to classify promotional activities can be found in the literature. Vokurka and Lummus (1996, 42) divide marketing activities designed to stimulate demand into three categories: **mass marketing**, **consumer promotion** and **trade promotion.** In their classification, mass marketing contains radio, television, and print media advertising. Mass marketing tends to focus on non-price information and aims at affecting consumer tastes, changing perceptions of product attributes, and differentiating the product from competitive offerings. Mass marketing, like brand advertising, may create market power, brand loyalty and price inelasticity in brand sales, but it can increase price elasticity by increasing awareness among consumers on the availability of substitutes, and affecting consumers' perceptions on competing products (Bolton 1989, 155-156).

The second category, consumer promotion, means promotional activities towards the consumer implemented by the retailer in the store but often initiated and financed by the manufacturer. Coupons and samples are mentioned as examples of consumer promotion (Vokurka and Lummus 1996, 42). Especially in the categories whose sales are price elastic, the most important form of consumer promotion are temporary price-cuts. Narasimhan et al. (1996, 17) divide price-cuts into three groups: pure, featured and displayed price-cuts, but it is not unusual that even all three coincide (temporary price-cut, feature and display activity). In fact, it is very typical that a single retail event employs several types of promotional activity. A good example of an event taking place in a grocery store is a temporary price-cut from the retail price combined with end-of-aisle displays and retailer's advertisement in a newspaper.

The third category, trade promotion, means manufacturer's promotional activities towards the next stage customers in the supply chain: wholesalers and retailers. Trade promotion includes

methods such as trade deals and account specific programs developed jointly with the next stage customer in the supply chain (Vokurka & Lummus 1996, 42). For example, cooperative advertising is a program undertaken by a manufacturer: the vendor pays for part of the retailer's advertising, but dictates some conditions for the advertising (Levy & Weitz 2004, 540). Retailer advertising typically focuses on price information and featuring price-cuts in newspapers, magazines and flyers (Bolton 1989, 155). Also display activity is often initiated by the manufacturer. The manufacturer can provide the retailer with display material and financial compensation to encourage the retailer to provide a special in-store presentation of the product, like expanded shelf space, end-of-aisle displays or free-standing platforms/bins. In some stores there are even dedicated feature areas designed to get the customer's attention, for example promotional aisles or areas displaying only merchandise that is being promoted, like seasonal or sale merchandise. Displays in point-of-sale/point-of-purchase areas are another important form of display activity (Levy & Weitz 2004, 596).

Levy and Weitz (2004, 519-520) classify promotional activities based on whether the methods are **impersonal or personal** and **paid or unpaid**. Advertising, sales promotion, store atmosphere, and websites belong to paid impersonal communications whereas paid personal communications include personal selling and e-mail. Unpaid impersonal communication means publicity and unpaid personal communication word of mouth, both of which are very powerful forms of communication, but very hard to control in terms of content and timing.

The largest portion of a communication budget is typically spent on advertising and sales promotion (Levy & Weitz 2004, 537). Levy and Weitz (2004, 700) define advertising as paid communication delivered to customers through impersonal mass media such as newspapers, television, radio, direct mail, and the Internet. Sales promotion is defined as paid impersonal communication activities that offer extra value and incentives to customers to visit a store or purchase merchandise during a specific period of time (Levy & Weitz 2004, 720). Levy and Weitz (2004, 520) mention temporary price reductions, special events, in-store demonstrations, coupons, and contests as forms of sales promotion. Sales promotions are typically used to achieve short-term targets, and most sales promotions are supported by promotions offered to the retailer by the manufacturer (Levy & Weitz 2004, 537).

Rosenbloom (2004, 358) suggests the classical division of promotional activities to **pull strategies** and **push strategies**. Pull strategies aim at creating strong consumer demand by

advertising directly to the end-customers and thus indirectly ensuring the wholesalers' and retailers' willingness to promote and sell the manufacturer's product because that is in their interest, too. Push approach aims at boosting the sales by cooperating directly with the next stage supply chain members (wholesalers and retailers). Ideally the underlying concept is mutual effort and cooperation. For example cooperative advertising, promotional allowances, displays and selling aids, in-store promotions, contests and incentives, and special promotional deals and merchandising belong to push promotional strategies (Rosenbloom 2004, 379).

Marketing activities designed to stimulate demand covered in the classification of Vokurka and Lummus (1996, 42) all belong to the paid impersonal communication in Levy's and Weitz's classification (2004, 520). In Rosenbloom's classification, mass marketing clearly falls within the category of pull strategies, while consumer promotion and trade promotion belong to push strategies. Figure 2-1 summarizes the most important promotional activities and their relations to each other, based on the previous classifications.

Figure 2-1: Classification of promotional activities

The promotional activities introduced above are by no means a comprehensive list. For example, Rosenbloom (2004, 379-380) includes also slotting fees, training programs, quota specifications, missionary selling and trade show among push promotional strategies. However, from the perspective of retail event management these more indirect strategies are not as relevant as, for example, consumer promotion and trade promotion, and thus they are not covered in this study. Because the short-term impact of pull strategies, such as manufacturer advertising, is normally quite small (eg. Blattberg et al., 1995, 123), the

discussion of the rest of the study will largely be focused on events consisting of different sales promotion activities. However, as mentioned previously, whatever the reason for deviation in demand patterns, solutions and processes of the same kind can be applied.

2.2 Reasons For and Against Retail Events

Since retail events have become extremely common in the industry, it is not surprising that numerous reasons exist for their use. Lummus et al. (2003) give quite an extensive list of reasons for price-cuts and trade deals. Price-cuts and trade deals can be used for reducing inventory and shifting the cost of holding inventory to the entity that has been given the discount. They can also be used to induce customers to a store, to increase store traffic and to increase sales of non-promoted products. For the manufacturer, maintaining and increasing market share of a particular brand are surely among the key targets. Discounts and special deals are also used in developing retailer relationships between the sales force or the manufacturer and the retailer, and to gain incremental sales by stimulating demand from wholesalers and retailers.

After all, incremental sales can be named as the ultimate goal of retail events. This goal is shared both by manufacturers and by retailers. Blattberg et al. (1995, 124) identify four major mechanisms by which sales promotion activities affect short-term sales: **brand switching**, **store switching**, **category expansion** and **purchase acceleration**. These mechanisms and their side effects will be examined in more detail in the chapter 4 when developing a framework for analysing retail events.

However, lately increasingly attention has been paid on the fact that the impact of retail events is not always only positive. For example, Nurmi (1998, 157) presents a critical view towards sales promotion, and the findings of her literature review reveal that a lot of researchers agree with her: the manufacturers are worried about the heavy increase in sales promotion and its erosive effect on brand value, the increase in promotional support and discount to next tier supply chain member, the logistical problems caused by retail events and the conflicts caused by promotional material.

Corsten (2000) is likewise critical of retail events. He claims that they favour brand un-loyal cherry pickers and that loyal consumers end up paying the hidden cost. They also cause variations in supply and demand which hinder the transmission of true signals, as well as an amplifying distortion of information further up the supply chain. This often leads to buffering

"chaotic" demand patterns with inventory, additional production runs and complicated transport processes. Stock-outs that raise frustration among consumers are more common for promoted products. Lastly, Corsten also mentions long-term erosion of brand equity as one of the problems of retail events.

From a manufacturer's perspective, one further problematic issue is that in promotion/trade-deal marketing activities it is not unusual for part of the trade deal to be shifted directly to retailer profits instead of passing it fully to the consumer (Blattberg et al. 1995, 125; Lummus et al. 2003, 319). Of course the opposite is also possible: a promotion may be effective for the manufacturer but not for the retailer. Thus to evaluate a trade promotion, the retailer should consider the realized margin from the promotion, the potential increase in the proportion of sales of promoted merchandise in comparison with the proportion of sales of full price merchandise, the potential loss suffered when consumers switch to the promoted merchandise from more profitable brands, the additional sales of other products made to customers attracted to the store by the promotion, and the cost of the additional inventory carried due to buying more than the normal amount (Levy & Weitz 2004, 534). In an ideal situation the retailer and the manufacturer are naturally working in close cooperation and together looking for mutually beneficial promotions.

2.3 Differences in Promotional Response between Brands and across Categories

Promotional response or promotional elasticity describes the relation between promotional activity and sales of the promoted product. This describes, for example, to what extent demand increases during a temporary price cut. Blattberg et al. (1995, 126-127) report that whether promotional elasticities exceed normal price elasticities has raised conflicting empirical results, although most of them indicate that the hypothesis would be true. Based on an evolutionary quantitative model, also according to for example Heerde et al. (1995, 215) temporary price cuts do have very strong effects on demand meaning high promotional elasticity. Also Bolton (1989, 161) supports this argument due to the role of consumer expectations, stockpiling behaviour, and competitive reactions.

Several interesting studies have been made regarding the differences in promotional elasticity between brands and across product categories. As the retailers want the promotions to lead to an increase in total category sales, not only in the sales of any specific brand, it is also valuable for manufacturers to take into account the differences in promotional response

between categories and direct their promotional efforts towards categories which are more responsive to promotions. This allows them to offer their customers events that are successful and better fulfil customers' expectations, and naturally are also more profitable for themselves. To give an overview of the factors affecting promotional response, the findings of four important studies will be summarized next.

Bolton (1989) examines promotional price elasticities between brands and across categories within four categories of frequently purchased non-durables. In her study, the dependent variable is an estimate of *own price elasticity*, and she uses explanatory variables, such as price level, category price activity (the weighted average of coefficients of variation in the prices of the major brands in the category), brand market share, manufacturer advertising, and category and brand use of coupons (average coupon value redeemed), display and feature activities (percentage of weeks in the time period when displayed or featured by the retailer). Among the variables, a strong correlation was found between manufacturer advertising and market share. The frequency of in-store displays and the frequency of advertising features also were found to be positively correlated across brands and across stores.

26 percent of the own price elasticities were explained by Bolton's model. Her key finding was that the magnitudes of promotional price elasticities are systematically related to the nature and intensity of marketing activities in different markets, whereas traditionally the differences have been attributed only to differences in customer tastes. *Brand market share*, *display activity* and *feature activity* explain a substantial amount of the variation in promotional price elasticities.

The category dummy variables also explained a remarkable fraction of promotional price elasticity estimates, which can be due to the category characteristics (eg. price level and manufacturer advertising) or an effect of customer tastes: First of all, substantial differences in the attributes of brands may make the sales more inelastic. Secondly, if the product has got a small target group, non-price attributes are more important. Thirdly, low search and inventory costs associated with the purchase decision (in other words, ease of comparing prices) may make the sales more elastic. Table 2-1 summarizes the variables and results of Bolton's study.

Table 2-1: Correlation between category characteristics and own price elasticity (based on Bolton, 1989)

Explanatory Variables	Own Price Elasticity
Relative brand price	=
Category price activity	=
Brand market share	–
Relative brand manufacturer advertising	=
Category coupon magnitude	–
Brand coupon magnitude	=
Category display activity	–
Relative brand display activity	–
Category feature activity	–
Relative brand feature activity	+

+ positive – negative = not statistically significant

Bolton's study has got some interesting managerial implications in terms of pricing strategies. For example, price competition is likely to be more important in a category characterized by frequent newspaper advertising (*high level of feature activity*) in comparison with a category characterized by frequent display activity (*high level of display activity*). Another important remark is that a promotional pricing program may be much more effective in markets where the brand has a *low market share* than in markets where the brand has a high share. A limitation of the study is, though, that the direction of causality between market characteristics and price elasticities cannot be demonstrated by Bolton's study because it examines purely correlation: marketing characteristics (such as display activity) may have arisen in response to the inherent price sensitivity of consumers, rather than vice versa.

Also **Fader** and **Lodish** (1990) have studied category characteristics. Their exploratory work examines 331 separate grocery product categories. The researchers use two sets of variables: structural characteristics of each category and detailed promotional movement information. They first examine both the sets independently and then integrate them in order to find further statistically significant relations. In the latter part of the study, the dependent variable is *category volume sold on deal*, which is a composite of *promotional response* and *promotion frequency*. Thus it does not directly reveal promotional elasticities but it is otherwise an effective tool in explaining category specific retail event phenomena.

The first set of variables, structural characteristics, includes *household penetration* (at least one purchase during the year), *purchases per household* (number of purchase occasion during the year), *purchase cycle* (the average interpurchase time), *average price* (average dollars spent per purchase occasion), and *market share of private labels* (combined market share for all private labels in the category). The other set, promotional variables, covers percentages of volume sold on *feature*, *display*, *price cut*, *manufacturer's coupon* and *retailer coupon*. These five percentages are not mutually exclusive ie. the purchase volume can count to several promotional variables if simultaneous promotional activity exists. The researchers also highlight that their variables measure consumer usage of the different deals, not the frequency of how often deals are offered by the manufacturers or retailers, but a strong link between these two is assumed.

Across the data analysed by Fader and Lodish, 27,1 percent of all grocery sales volume was purchased on some type of retail deal. Price cuts, features, and displays were found to be often used simultaneously to maximize the impact of promotional event, although 37 percent of all volume only involved feature and/or display. Based on an analysis of the categories, Fader and Lodish divide them into four promotion clusters: 24 percent of the categories (eg. butter, eggs, ice cream) fall into the first cluster with frequent use of features, price cuts and store coupons, but without display activity, 9 percent of the categories (eg. soda, tuna fish, paper towels) to the second cluster with frequent use of in-store display supported substantially by features, 23 percent of the categories (eg. coffee, cereal, detergents) to the third cluster where manufacturer coupons alone dominate the promotional activity, and the remaining 44 percent of the categories (eg. horseradish, sleeping pills) to the fourth cluster with no or little promotional activity. Interestingly, most categories can be easily classified into one of these four clusters.

Fader and Lodish also classify the categories into four purchase clusters based on the structural variables. In this analysis, out of five variables household penetration and purchase frequency were the ones that were found to be most useful for the classification. The first purchase cluster consists of 15 percent of the categories with high penetration and high purchase frequency (mainly perishable staples, such as bread, and other popular categories, like soda and canned soup. The second cluster includes 28 percent of the categories with high penetration and low purchase frequency (eg. condiments and paper products that are bought by most households at least once a year) and the third 21 percent of the categories with low penetration and high purchase frequency (eg. pet foods, baby supplies and cigarettes that have

smaller, specific segments). Similarly to the fourth promotion cluster, also the fourth purchase cluster is the one with low activity and the largest of four purchase clusters with 36 percent of the categories having both low penetration and low purchase frequency.

By integrating their two sets of variables, Fader and Lodish test a number of hypotheses. They observed that as anticipated, the categories with both *high penetration* and *high frequency* (purchase cluster 1) are *promoted heavily* in all ways except manufacturer couponing and have *high volume sold on deal.* Since many of the categories that have high penetration and high frequency are commodities, like milk, eggs and bread, the categories having high volume sold on deal also have *higher private label shares* and *lower price levels.* The findings of Fader and Lodish are summarized in table 2-2.

Table 2-2: Correlation between category characteristics and volume sold on deal (based on Fader and Lodish, 1990)

Explanatory Variables	**Volume Sold on Deal**
Household penetration	+
Purchase per household	=
Purchase cycle	+
Average price	–
Market share of private labels	+

+ positive – negative = not statistically significant

The cluster classifications and other results of the study may be useful for retailers and for manufacturers when checking their promotional strategies in different categories and also when evaluating their product portfolios. For example, the results might encourage retailers to increase features and displays for high penetration, high frequency categories, or to try to push a category from a low activity category to a higher volume cluster by the right kind of communications strategy. The results can also be useful to provide benchmarks for assessing promotional performance, meaning that companies can compare their promotional efforts and the percentage they sell on deal to the general results in the same categories.

Raju (1992) investigates the relations of category characteristics to short-term variability in the product category sales in 63 product categories. His dependent variable is a measure of the *standard deviation in category sales over time*, and the determinants of variability in category sales have been divided into two groups: *promotional activity* in the product group, and *other category specific characteristics* not directly related to promotional activity.

The first group of determinants includes the variables *magnitude of discounts* (the difference between the regular price and the price offered in each week), and *frequency of discounts* (the market share weighted average of the brand promotional frequencies), the second *expensiveness* (a measure of price level based on the market share weighted average of regular prices of various brands in the category), *bulkiness* (a measure of the propensity of consumers to stockpile products of the category based on the volume of the product), and *competitive intensity* (a measure of level of competition based on the number of brands in the category and their market share patterns). Additionally, Raju mentions *perishability* as an important category characteristic, but that has not been included in his analysis. This is due to the nature of his data which consists entirely of categories of packaged goods with large shelf lives. For other kinds of categories it might be a very relevant explaining factor.

The results of Raju's study (Table 2-3) imply that a higher magnitude of discounts leads to a greater variability in category sales. On the contrary, a higher frequency of discounts leads to significantly less variability. Thus the *potential for sales increases may be higher if deep discounts are offered less frequently*. Furthermore, bulky categories exhibit lower variability suggesting that *bulky categories may offer less potential for sales increases*. Also *high competitive intensity leads to lower variability* and thus to a lower potential for sales increases. No statistically significant relationship was found between level of expensiveness and variability in category sales.

Table 2-3: Correlation between category characteristics and variability in category sales (based on Raju, 1992)

Explanatory Variables	Variability in Category Sales
Magnitude of discounts	+
Frequency of discounts	–
Expensiveness	=
Bulkiness	–
Competitive intensity	–

+ positive – negative = not statistically significant

One of the limitations of Raju's study is that his dependent variable, the variability in category sales, is a composite of promotional response, promotional effort and seasonality, and thus the relative significance of promotional response and promotional effort cannot be distinguished. The effect of seasonality has been partly eliminated in the study, but still it is

important to keep in mind that the weekly sales can vary from week to week due to lots of other factors as well than promotional activity in the specific product category. For example promotional activity in another product category in the same store or promotional activity in another store in the same product category can increase variation. Raju also wants to highlight that the study examines changes in sales, not in profits, which may not correlate with each other at all, and that the results are based on a correlation analysis. Thus although causation is implied, it is not formally tested.

Narasimhan et al. (1996) build their research on the three studies presented above, especially on the work of Fader and Lodish (1990). Narasimhan et al. study the relationship between product category characteristics and *average brand promotional elasticity* within the category in 108 product categories. The authors consider three types of promotions (pure price cuts, featured price cuts, and displayed price cuts) and seven category characteristics (category penetration, average interpurchase time, price, market share of private label brands, number of brands in the category, susceptibility to impulse buying, and susceptibility to consumer stockpiling).

The *promotional elasticities* were found to be *higher* for categories with a relatively *low number of brands*, *higher category penetration*, *shorter interpurchase times*, and *higher consumer susceptibility to stockpile*. Price level had a negative relationship for displayed price cuts and positive relationship for pure price cuts. No statistically significant relationship is found between promotional elasticity and either private label market share or, somewhat surprisingly, impulse buying. Table 2-4 summarizes the findings.

Table 2-4: Correlation between category characteristics and promotional elasticities (based on Narasimhan et al., 1996)

Explanatory Variables	Displayed Price Cut Elasticity	Featured Price Cut Elasticity	Pure Price Cut Elasticity
Category penetration	=	+	+
Average interpurchase time	–	–	=
Price	–	=	+
Market share of private labels	=	=	=
Number of brands in the category	=	–	–
Susceptibility to impulse buying	=	=	=
Susceptibility to consumer stockpiling	+	+	+

+ positive – negative = not statistically significant

The authors list several potential benefits for the results of cross-category analysis. The results can be useful in performance evaluation of promotions of a particular brand compared to other brands in the category, long-term promotion planning, retailer pass through assessment (how much of a trade deal to pass through to consumers), retailer promotion design, identifying opportunities for private labels and understanding consumer behaviour.

To summarize the findings of the four studies presented above, it can be stated that retail events should get the best response in those categories with high household penetration and in which there is a relatively low number of brands (low competitive intensity). Promotions work better for brands with lower market shares. The response is steeper if the discounts are high and more infrequent. Finally, bulky and perishable categories may get a lower response.

3 Retail Events as a Logistical and Organizational Challenge

Under ordinary circumstances, in most supply chains a balance exists between customer requirements and supply chain capabilities. Like briefly mentioned already in the introductory chapter, however, retail events are a major challenge for supply chains, and when retail events stimulate demand, additional costs are almost always incurred in the strained supply chain. Executing retail events successfully also requires seamless co-operation of several departments and organizations, and thus they are also a significant organizational challenge.

In this chapter, the kinds of supply chain problems and related costs typically caused by retail events will be examined. We will also have a look at what kind of actions and processes have been proposed for tackling the challenge of volatile and unpredictable promotional demand: two current supply chain management initiatives, Efficient Consumer Response (ECR) and Collaborative Planning, Forecasting and Replenishment (CPFR) will be introduced, with an emphasis on their approach towards retail events. To synthesize the chapter, guidelines for collaborative retail event management will be put together.

3.1 The Impact of Retail Events on the Supply Chain

Volatility in customer demand derives from at least two sources: customers' buying habits (including seasonality), and changes caused by actions taken by the retailer or the competitors (Vokurka & Lummus 1998, 42). As previously stated, often it is the promotional policies and retail events in particular that cause the biggest swings in consumer demand (VICS 2004, 4). The controlling, anticipating and shaping of consumers' buying habits can be difficult for any company especially in the short-term. Nevertheless, the impact on the supply chain caused by the company's internal actions such as promotional activities should be manageable (Vokurka & Lummus 1998, 42).

According to Vokurka and Lummus (1998, 44), typical symptoms of inadequate supply chain capabilities and flexibility to manage the explosion of marketing activity and intensity of consumer demand include decreasing margins, poor service performance, increased overhead costs, poor production process reliability (quality and delivery implications), increased downtime due to changeovers and high inventory levels of raw materials and finished product. In addition, the so-called *bullwhip effect* is often particularly strong within a volatile

environment. The bullwhip effect refers to the phenomenon whereby orders to the supplier have a larger variance than sales to the buyer. Additionally, this demand distortion propagates upstream in an amplified form (Lee et al. 1997, 546). The logistical problems and cost implications caused by uneven demand and poorly managed retail events will be discussed in more detail in three parts: **stock-outs**, **excess inventory** and other **added supply chain costs**.

3.1.1 Stock-Outs

Regardless of recent improvement programs and technological inventions, Corsten and Gruen (2003, 605) report retail out-of-stock (OOS) rates have remained at the level of about 8 percent. For the promoted items the situation is even worse: the OOS rate in the retail stores can easily double during retail events, and the same ratio of promoted versus non-promoted OOS rates was found in a study conducted by Corsten and Gruen (2003, 606). For non-promoted items, manufacturer availability is normally a minor cause of stock-outs, but during retail events the problems are a lot more likely to be seen on the distribution centre and manufacturer levels also. All this is mainly a consequence of high demand variation which makes it really hard and expensive to forecast consumer demand and keep the service level up.

The consumers' reactions to stock-outs are often classified into five groups, although there are examples in the literature of models with even 15 possible reactions (eg. Emmelhainz et al. 1991). Interestingly, these consumer responses are similar to the sources of incremental sales (see Table 2-1), now only working reversely. Following the approach taken by Corsten and Gruen (2003, 607), the primary consumer responses are the following:

1. Buying the item at another store (store switching),
2. delaying purchase (buying later at the same store or purchase deceleration),
3. substituting – same brand (for a different size or type or variant switching),
4. substituting – different brand (brand switching) or
5. not purchasing the item (lost sales).

The study of more than 71000 consumers worldwide revealed that in out-of-stock occasions manufacturers lose on average 50 percent of potential sales when consumer switch brands, delay purchases or do not purchase at all (Figure 3-1).

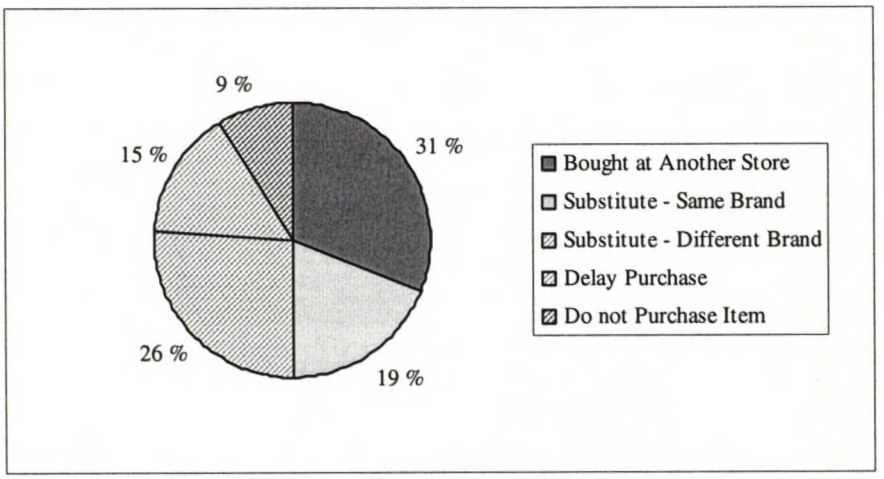

Figure 3-1: Manufacturer's loss of potential sales in out-of-stock situations (based on Corsten & Gruen 2003, 606)

From the retailers point of view the situation was found to be on average even worse: the loss of potential sales was found to be about 55 percent (Figure 3-2). The biggest factor leading to lost sales was purchases at another store. These percentages naturally vary across regions and product categories, but the impact both on retailers and manufacturers is significant in every case (Corsten & Gruen 2003, 607). Further discussion on differences between categories will follow in the empirical part of the study (Chapter 5.2).

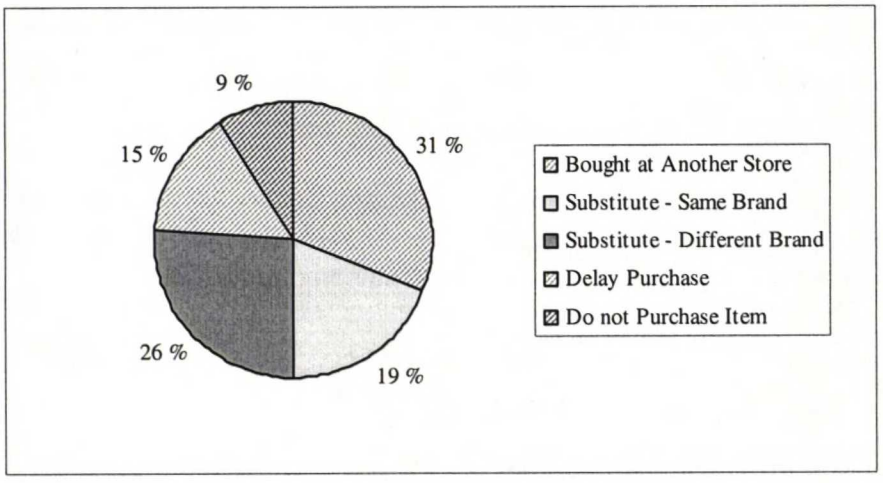

Figure 3-2: Retailer's loss of potential sales in out-of-stock situations (based on Corsten & Gruen 2003, 606)

The mechanisms by which these different types of consumer responses affect the entire supply chain can be divided into four areas: retailer shopper loss risk, retailer sales loss risk, manufacturer shopper loss risk and manufacturer sales loss risk. Naturally these areas are

interdependent. Retailers directly lose sales when consumers buy the OOS item in another store, cancel their purchases or substitute a smaller and/or lower priced product. Manufacturers lose sales when consumers substitute a competitor's brand or cancel a purchase. Retailers may lose customers permanently if the frequent OOS situations encourage consumers to shop elsewhere. In a similar manner, manufacturers may lose shoppers if consumers who decide to buy a competitor's product as a substitute find it better and switch to the competitor's brand also when making the purchase in the future (Corsten & Gruen 2003, 608). In the case of promoted items being out of stock, the consumers may become particularly upset by the broken promise of a special deal, and even the brand equity of both manufacturer and retailer can be at risk, as the consumers may be very irritated if they visit a retail store only because of an item that has been for example promoted in media and then is out of stock in the store (VICS 2004, 4).

In addition to the direct and indirect lost sales, the stock-outs are also otherwise problematic especially because they have a tendency to perpetuate themselves. Logistics inefficiencies are caused by irregular/"rush" replenishments that amplify the "bullwhip effect". The stock-outs also complicate planning for the future as the picture of actual demand is inaccurate. As a consequence, buyers have to work with a greater margin of error, either placing insufficient replenishments orders if the out-of-stock situation has not been detected, or over-ordering to ensure availability but simultaneously causing excess inventory (Corsten & Gruen 2003, 609). Similar phenomenon can easily happen when estimating the volume of upcoming retail events if the out-of-stock rates during past events are not documented properly.

Corsten and Gruen (2004, 26) place most of the responsibility for stock-outs on store level, reporting that about 72 percent of OOS situations are due to faulty store ordering and forecasting practices, like retailers ordering too little or too late or generating inaccurate demand forecasts, and store shelving and replenishment practices. The remaining 28 percent are due to upstream causes covering for instance cases related to manufacturer availability, shelf space allocations, and also promotions and new product introductions. According to VICS (2004, 5), in about one fourth of out-of-stock occasions the product is at the store, but not on the shelf. The remaining three quarters are caused by poor planning and communication in one way or another: for example by inaccurate shipments from the manufacturer to the distribution centre, wrong allocation of promotional products from the distribution centre to the stores, or failure to incorporate event changes and shifts in consumer demand into sales forecasts. Once again all these issues are naturally interrelated.

3.1.2 Excess Inventory

Adding inventory cushions in the supply chain is a traditional but dangerous remedy against demand fluctuations (Vokurka & Lummus 1998, 42). First of all, a conscious decision should always be made regarding the trade-off between the number of disappointed consumers and the need for selling out or scrapping the excess inventory, or in other words between the service level and inventory levels, as based on cost/benefit analysis high inventory levels are not necessarily justified at all (Finkin 1989, 51). Furthermore, excess inventory may also have been accumulated as a consequence of the bullwhip effect, which makes the demand more volatile in the upstream supply chain nodes and thus signals for even more safety stock especially for the manufacturers (Lee et al. 1997, 546).

Unnecessarily high inventory levels naturally mean unnecessarily high inventory costs. The costs of carrying items in inventory include opportunity cost of the money invested (capital tied up and warehouse space claimed by inventories could be allocated to something else), expenses running a warehouse, handling and counting costs, the costs of special storage requirements, deterioration of stock, damage, theft, obsolescence, insurance, and taxes (Silver et al. 1998, 46).

More safety stock may first seem to help with handling the variability in sales, but actually they may only hide part of the underlying problems and lead to prohibitively high inventory carrying, sell-out and scrapping costs which can lower the profits significantly. Particularly in the case of perishable goods, such as most grocery products, the excess inventory is a severe problem as the goods lose value as the time goes and unavoidably become obsolete and worthless, if not sold early enough. Thus a trade-off exists also between the risk of giving sell out discounts too early and the risk of bearing the goods in the inventory in the hope of full price sales but still ending up selling out or even scrapping the goods. Finkin (1989, 50) highlights that once inventory is deemed obsolete it should be immediately eliminated regardless of how briefly it had been held in order to avoid further losses.

3.1.3 Other Added Supply Chain Costs

Stock-outs and excess inventory caused by demand swings are not the only possible problematic consequences of retail events. Extraordinary requirements and high volumes cause also special arrangements and changes in everyday routines in all the supply chain echelons which both drive costs and make the operations vulnerable for human errors – leading to even more added costs. As there are practically always numerous parties and

persons involved in organizing retail events, coordination is also a real organizational challenge, so that everyone will be aware of their responsibilities and take care of them in a timely fashion. Table 3-1 includes the most common sources of added supply chain costs.

Table 3-1: Supply chain limitations which drive cost (Vokurka & Lummus 1998, 48)

Request to the supplier in less than standard lead time
Lack of storage capacity at the supplier
Lowest cost transportation mode is unavailable
Handling requirements change due to design changes
Manufacturing plant downtime (due to unavailable material)
Lack of storage capacity at the manufacturer
Unavailable capacity (overtime or non-standard production methods used)
Additional setups or changeovers at the manufacturing plant
Damaged product, obsolete product
Transportation mode requires expediting
Excess storage quantities require additional cycle
Lowest cost transportation mode can't provide desired service
Unavailable supplier production capacity
Additional setups or changeovers at the supplier
Quantities exceed supplier capability (a second supplier required)
Unavailable manufacturing capacity (an outside supplier required)
Unavailable manufacturing capacity (drives production to a higher cost plant)
Change in product design
Lack of storage capacity at the distributor
Request non-standard processing at the distributor (special tagging, packaging)

When estimating event profitability and planning event execution, the added supply chain costs should be taken into account as their impact can be quite significant. Vokurka and Lummus (1998, 46) suggest a model that captures the **incremental sales contribution**, the **projected marketing expenditures**, and the **projected added supply chain costs** that are not included in the product's standard cost. However, instead of exact quantification of added supply chain costs, already simply raising awareness of them may help to make better justified decisions and reduce the added costs, thus increasing the event profitability. Top notch project management, collaborative planning of events, and informing all the relevant

parties properly on the project details should also help. Next, more discussion will follow on how the collaborative practises can help in getting the event performance under control.

3.2 Supply Chain Initiatives in Grocery Industry

As illustrated above, a lot of the traditional remedies to the problems faced by grocery industry, like adding inventory cushions in the supply chain or intensive store employee monitoring of shelves during promotions, are costly and although they may be effective in the short term, they are not sustainable as they cure the symptom rather than the root cause (VICS 2004, 5). To become proactive, instead of the traditional reactive approach to tackling the challenges, many of the biggest players in the consumer goods industry, especially the food manufacturers and retailers, have put a tremendous effort in wide-scale supply chain initiatives during the last 15 years.

The most famous and widespread initiatives are likely to be Efficient Consumer Response (ECR) and Collaborative Planning, Forecasting and Replenishment (CPFR). Also the challenges of promotions and other retail events have been perceived in both of these two programs, and they provide the retail supply chain members with some guidelines and useful tools for retail event management. The logic behind these supply chain initiatives is that more accurate, timely and detailed information and increased collaboration among supply chain members in planning, forecasting and replenishment may lead to improved promotional forecast accuracy, improved fill rates and reduced execution errors (VICS 2004, 5). A brief introduction to ECR and CPFR principles and their approach to retail events will follow next.

3.2.1 Efficient Consumer Response (ECR)

Developing Efficient Consumer Response (ECR) began in the early nineties in the United States, and since then it has become a worldwide initiative in the grocery industry. The principle of ECR can be captured as the collaboration between trading partners to serve consumers better, faster and at lower costs. Silver et al. (1998) define ECR as a set of market-oriented logistics strategies in which distributors and suppliers work together to create a value-added chain through which information and goods can be exchanged quickly, efficiently, and reliably to the benefit of all involved parties.

The core of ECR is to activate trading partners to work together, focusing on the consumer and to optimise aspects of the supply and demand management to create benefits for the consumer, for example lower prices, more choice variety and better product availability (ECR

Europe 2005). Originally, ECR consists of four strategies: *efficient store assortment*, which attempts to optimize the productivity of inventories and store space at the consumer interface, *efficient replenishment*, which attempts to optimize time and cost in the replenishment system, *efficient promotion*, which attempts to maximize the total system efficiency of trade and consumer promotion, and *efficient product introduction*, which attempts to maximize the effectiveness of new product development and introduction activities (Silver et al. 1998).

The relatively newly developed ECR Scorecard contains all the classical ECR strategies listed above, but the focus areas have been divided slightly differently. The four key areas are demand management, supply management, enablers and integrators that have been broken down further into core and advanced improvement concepts (Figure 3-2). The elements of ECR Scorecard are mainly well-known methods to improve effectiveness and efficiency, but when applying them under ECR, the ambitious goal is to address them systematically as an integrated set, not individually, and assess them in terms of their overall impact across the supply chain instead of only within a single supply chain member (GCI 2005).

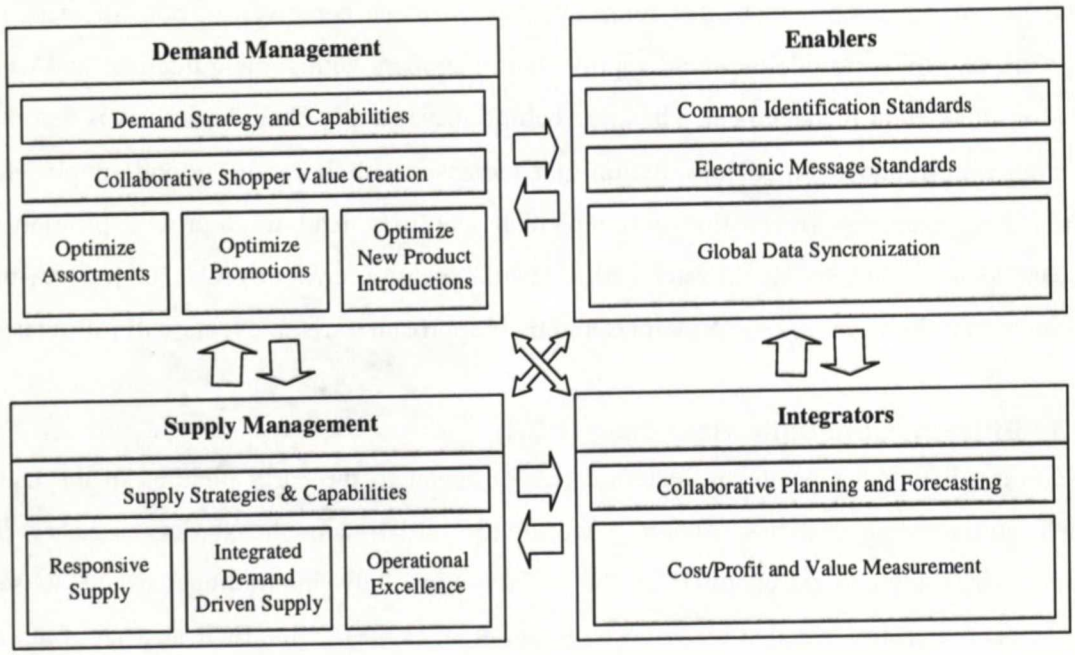

Figure 3-3: ECR scorecard (GCI 2005)

Efficient promotion has been one of the ECR strategies since the beginning of the ECR movement. The ECR Scorecard includes optimization of promotions as a part of demand management, GCI (2005) naming it to be possibly the most important of the ECR Demand Management concepts. The traditional problem of promotions is that retailers and manufacturers often abuse them as tactical instruments to achieve short-term targets.

Cooperation between manufacturers and retailers can significantly improve the effectiveness of promotions, and it typically also reduces the number of promotions (Corsten, 2000, 54).

Also Hasselgren (2004, 19) stresses that retailers and suppliers can never gain the full potential of retail events without collaboration. He lists four simple, but important steps for optimizing promotions that should both improve event profitability and reduce costs:

1. Define the objectives and actions.
2. Decide targets and the budget.
3. Ensure that the material is in the store in time.
4. Analyse the impact of the promotion afterwards.

These four steps may sound self-evident, but in the real world they are rarely followed consistently. Home (2003, 13-15) describes the maturity of event optimization in Finnish companies based on ECR scorecard based surveys conducted in 1998-2000. Both internal and joint optimization of promotions were still largely in the pilot or early implementation phase. In the study, internal event optimization was divided in three parts: event planning, event execution and event analysis. Internal event planning and event execution were internally quite well deployed, but event analysis still needed a lot of improvement. When examining joint event optimization, the focus was on the amount of cooperation between business partners in event planning, execution and analysis. Also the collaborative event analysis was very irregular, and the other collaborative areas were only in the early implementation phase. Some of the common challenges detected in the survey were also familiar to the case company of this study. They will be discussed in an empirical context in chapter 5.

The results regarding supply chain collaboration of a more recent study (Uusitalo 2005) on the development of supply chains in the Finnish retail industry show that today promotions and other marketing activities are the most widely collaboratively planned issue. However, when investigating areas where collaboration should be increased in the future, demand forecasting, retail events and category planning got the highest scores. It seems that although collaboration in promotion planning is now already taking place relatively commonly, there still is plenty of room for improvement (Uusitalo 2005, 55-57).

3.2.2 Collaborative Planning, Forecasting and Replenishment (CPFR)

ECR Europe (2001) defines CPFR as "a cross-industry initiative designed to improve the supplier/manufacturer/retailer relationship through co-managed planning processes and

sharing information." CPFR can either be seen as a component among the ECR Integrator concepts or as a whole upgraded version of ECR. The idea is that all members in the supply chain jointly manage planning and forecasting processes and share the necessary information. CPFR does not actually bring too much new content to ECR but its importance lies in building a bridge between Demand Management and Supply Management modules of ECR. The new elements that CPFR stresses are forecasting and information sharing. CPFR also contains some concrete tools for ECR collaboration. The list of theoretical benefits of CPFR (Table 3-2) is long, but so is the list of requirements for successful collaboration (Table 3-3).

Table 3-2: Typical benefits of CPFR (ECR Europe 2001)

Improved responsiveness to consumer demand
Greater forecast accuracy with a single shared forecast
Improved relationship between the trading partners
Increase in sales
Inventory reduction
Cost reduction
Improved production capacity utilisation

Table 3-3: Key Requirements for Collaboration (ECR Europe 2001)

Senior management commitment
Clearly defined roles and responsibilities
Project viewed as strategically relevant
Willingness to collaborate
Readiness for a real "win-win" situation
Technical infrastructure in accordance with the goals of the collaboration
Trading partners' ability to share forecasts and anticipate demand
Inter-company collaboration

The original nine-step CPFR process was published by VICS (Voluntary Interindustry Commerce Standards) in 1998. The model is based on the ECR principles and consists of three stages: planning, forecasting and replenishment. It has been criticized for being far too complicated for wider use especially in small companies, and even the big ones have been struggling when trying to implement the model. Thus different kinds of lighter versions and

sub-initiatives of CPFR have been suggested and developed in order to be able to reach at least part of the benefits.

As a matter of fact, the term retail event management was originally used of one of the sub-initiatives of CPFR. This refers to an improvement concept where the idea is to concentrate collaborative efforts on retail events, as they are acknowledged as often wasteful, complex to analyse, and one of the most promising improvement areas. This is especially relevant to Europe, where according to ECR Europe (2001) retail events are even more important than in the United States, promotion planning has been identified as a key process. Another new perspective that has been added to CPFR when launching it in Europe is that of including all the members of the supply chain in the scope of CPFR, not only the manufacturer-retailer relationship.

A key factor for excellence in CPFR is the ability and willingness to share data that enables CPFR participants to act on opportunities, issues and misunderstandings. Depending on the kind of agreement in existence between the trading partners, for example business plans, promotion plans, new product introduction information, inventory data, POS data and forecasts, production and capacity plans and lead time information can be exchanged (ECR Europe, 2001). However, in practise the biggest constraint of information sharing is often not ability or willingness, but time. Thus instead of sending all the possible or randomly chosen data back and forth, a better approach would be first to plan carefully what kind of data to share, in which format and for which purpose.

In the early phases of implementing CPFR the role of technology may be relatively low as CPFR is first and foremost about business processes. However, later in the process technology may become one of the key enablers as the scope of collaboration increases and makes manual processing of exchanged information too time consuming.

ECR Europe (2001) discusses promotion planning and gives some recommendations for ways to collaborate in it. The key is to make the correct promotion information available to all members within the supply chain as soon as possible, both among trading partners as well as within each company, for example between marketing/sales and production, purchasing, planning and so on. The processes of collaboration in promotion planning are creating a promotion plan, identifying exceptions and resolving them.

VICS (2004) has published a CPFR business process guide for retail event collaboration. They suggest dividing the coordination development process into two phases: retail event

synchronization and retail event collaboration. Event synchronization refers to a basic process of communicating event details systematically, and notifying trading partners of changes when they occur. Event collaboration is a more comprehensive process engaging both parties also in the estimation of event volumes, sketching execution strategy, and decision making.

3.3 Guidelines for Collaborative Retail Event Management

Retail events and other marketing activities can significantly strain supply chains that often lack the flexibility to deal with large demand swings. Moreover, poor planning, communication break-downs and inadequate coordination between functions and trading partners can worsen the situation significantly. However, as illustrated in chapter 2, in some categories and market situations the performance of retail events can be very good, so instead of giving up in front of the logistical and organizational challenges caused by promotions, the manufacturers and retailers should look for solutions to better manage the demand swings and keep the process smooth. For example Finne and Kokkonen (1998, 32) point out that the event-related extra demand can be taken into consideration in forecasting models, and ECR and CPFR concepts provide the retail supply chain members with some useful ideas.

Småros and Främling (2001) discuss the inter-company collaboration in terms of information system solutions. They divide the requirements of inter-company collaboration into three parts: internal processes, collaborative processes and technology (Figure 3-4). The basis for all collaboration are high quality internal processes that are able to produce and use collaborative information. Collaborative processes shall be scalable and flexible, fast to implement and easy to integrate. The technological solutions form only a small part of the challenge of implementing inter-company collaboration, but when stable internal and collaborative processes have been created, the role of technology as an enabler of secure, reliable and cost-efficient information sharing and communication is of additional value.

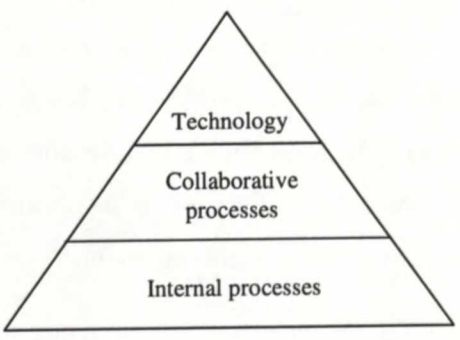

Figure 3-4: Requirements of inter-company collaboration (Småros & Främling, 2001, 3)

Following Småros's and Främling's approach, in the rest of this chapter we will have a deeper look at both internal and interorganizational collaboration and process development, and their requirements, challenges and possibilities in retail event management. The technological solutions, however, are not included in the scope of this study. In general it can be stated that if a customer's share of the manufacturer's total sales is small, investments in IT systems integration, for example for sharing POS data, will never be fruitful. When launching a new product in a Finnish retail chain, the volume is so small (only a fraction of the total Nordic volume) that the early sales information is not likely to have any real impact on the production.

Before starting any fancy interorganizational development projects, the first great challenge is to increase **internal collaboration** among the people involved in the retail event process within a single company. Sabath and Fontanella (2002) claim that companies that can cooperate internally can cooperate also with other companies, and also a lot of other researchers highlight the importance of internal integration. Even ECR Europe (2005) warns that "companies, which are not well prepared internally to pursue ECR, are in danger of exposing this fundamental weakness when starting to work together with their trading partners."

Based on the literature and case studies on supply chain collaboration, it seems that there is a group of challenges faced in so many development projects that they could be called universal. These phenomena were found also in a recent Finnish case study by Korolainen (2003). The following prerequisites for success in collaborative efforts with other supply chain members were listed:

- Know your internal processes
- Set clear goals
- Develop performance measures that are easy to use
- Ensure adequate resources
- Plan, follow up and document the project
- Get the employees committed to the change

Process mapping is a good way to get started in retail event management project. Handfield and Nichols (2002) highlight the importance of understanding the process as it is today, before moving on to speculate on improvements and how the process should be. Putting together a chart on all the phases and tasks of the retail event process and finding out who is responsible for them may sound obvious but surprisingly in reality this often is not the case.

After process mapping, it should be clear who all are involved in the process. The next step is to ensure that **crossfunctionality** exists in the process. Since retail events are relatively complex processes that are carried out in a tight schedule and with a lot of uncertainty, close coordination and communication across functions is essential for executing the events with minimal problems. At least marketing, sales, supply chain and production personnel are involved in event execution and should be in a continuous dialog and learn to see the process as an entity instead of concentrating only on optimizing the performance of own department.

In addition to process mapping, another issue that needs to be mapped is the **event landscape**. A clear picture of all the promotions, marketing campaigns and events that the company is running can be drawn as a Gantt chart. Additionally, a retail event **strategy** should be clarified including conscious guidelines on the trade-offs that unavoidably exist in the retail events, for example regarding category-specific side effects of the events and logistical sacrifices that may have to be made. Forming explicit **criteria** for choosing retail events for execution would further help in decision-making and increase transparency.

In longer term, companies can also mitigate the problems related to unstable demand through programs focused on improving the **flexibility** of their factories and supply chain. They may even need to increase the total capacity if they wish to meet the peak demand. **Standardization** of the product assortment is one way to reduce the complexity of the supply chain, as is increasing **modularity** and taking advantage of **postponement**.

It is indeed very important to ensure that internal processes are under control and that adequate resources and skill sets exist, but when the prerequisites listed above are satisfied, from then on the trading partners can start to develop **interorganizational collaboration**. The most prominent forms of collaboration are collaborative **forecasting** and retail event **analysis** in which increased communication and information sharing take key roles.

The most important issue to keep in mind when planning inter-company collaboration is that one size does not fit all – the rationale for the collaboration should never be the collaboration itself but the bottom line impact that can be gained by it. The biggest benefits of supply chain initiatives do not necessarily come from extensive ECR or CPFR programs but better project and process management and increased interaction between people in different functions and companies. Starting with small steps decreases also the risk of lacking **adequate resources**, **skills** and **commitment**. Two case examples of how collaborative retail event management may look like in practise will be presented in chapter 5.6.

4 Framework for Analysing Retail Event Performance

No matter how well the collaborative attempts to improve the retail event process succeed and how smooth the process eventually becomes, analysing retail event performance remains a central task to ensure sensible event decisions and continuous improvement. To illustrate what kind of factors shall be analysed when assessing the true performance and profitability of a retail event, next we will have a deeper look both at the mechanisms of promotional sales and their side effects, and then capture them to a framework. Furthermore, spreadsheets for estimating and comparing incremental revenue and incremental costs generated by an event will be put together in the end of the chapter. The framework and the spreadsheets are based on the findings of the literature review and logical relations of the phenomena.

As stated in the chapter 2, incremental sales are the ultimate goal of retail events. This goal is shared both by retailers and manufacturers. In chapter 2 it was also illustrated that there are certain brand and category characteristics that are likely to result in a steeper promotional response. Depending on these characteristics, such as household penetration, number of brands in the category, brand market share, magnitude and frequency of discounts, bulkiness and perishability, incremental sales are generated by different mechanisms of promotional sales, having either positive or negative side effects on the true performance of the event.

Brand switching, **store switching**, **category expansion** and **purchase acceleration** are the four major mechanisms that Blattberg et al. (1995, 124) identify to affect short-term sales volume. To complement their list of promotional mechanisms, a fifth mechanism, **variant switching**, will be included to the framework built in this study. These five mechanisms will be analysed together with eight side effects they were found to have.

Variant switching refers to a situation where the consumer substitutes a promoted product variant within the same brand for the full priced product that they originally intended to buy, for example a different flavour or size. This phenomenon is also known as cannibalization and has a negative impact both on the manufacturer and the retailer as the promoted products typically have lower margins the full priced products.

The other four promotional mechanisms may have partly different significance and consequences for retailers and manufacturers. From a retailers' perspective **brand switching** is not of too much interest in the first place, as retailers are mainly concerned with total category sales. For manufacturers, brand switching is naturally an important source of

additional sales (Heerde et al. 2002, 202) and for them gaining market share from the other manufacturers is often one of the major objectives of retail events. However, also retailers are likely to become interested in the brand switching effect if consumers switch to the promoted merchandise from more profitable private-label brands (or into a large extent from other full priced brands), though, as that may lead to a potential loss to the retailers (Levy & Weitz 2004, 534).

In the case of **store switching** the standpoints are likely to be the opposite: the manufacturers are not that concerned about from which store the consumers purchase their product, but for retailers one of the main goals of retail events is to induce people to shop in their stores. The results of a study by Kumar and Leone (1988, 185) shows that a part of the incremental sales during retail events can be attributed to store substitution as a result of price promotion and featuring.

The sales resulting from **category expansion** are the purest form of incremental revenue both for manufacturers and retailers, but also category expansion may have either positive or negative side effects, namely an increase in sales of complementary categories and a decrease in sales of substitute categories. These effects may be even quite significant for the retailers' overall profits. There is no impact on the manufacturer if it is operating only in one category, but if it is present in any of the complimentary or substitute categories, side effects may exist.

Purchase acceleration benefits both the retailers and manufacturers, at least in short term. If the incremental demand is accumulated from impulse purchases resulting to increased consumption, there will be no negative side effects in the longer term either. Assael (1995, 154) defines impulse buying as "a tendency to buy on a whim or an action based on a powerful or persistent urge", and a typical example of this would be a totally unplanned purchase of a chocolate bar from a point-of-sales display.

Then again, if the purchase acceleration leads to stockpiling behaviour, in the longer term it has a negative impact, as the incremental sales are to a large extent "borrowed" from the future demand, meaning that there will be a decrease in the sales of non-promoted products in the future. For example, Dawes (2004) reports that in his study, the longer-term negative effect on category volume cancelled out approximately two thirds of the gains of the price promotion to the retailer.

The framework for analysing retail event performance (table 4-1) captures the mechanisms of promotional sales and all their side effects on the profits of manufacturers and retailers. To

summarize, the impact of variant switching is negative both on manufacturers and retailers. Brand switching has got a positive impact for the manufacturer, whereas for the retailer it has either no impact or a negative impact. On the contrary, store switching and increased store traffic have a positive impact on the retailer's sales, but for the manufacturer the decrease in sales in competing stores can have a negative impact. The side effects of category expansion on the manufacturer depend on in which categories the manufacturer is operating, and similarly on the retailer category expansion has either positive or negative side effects. Lastly, the side effects of purchase acceleration can be both positive and negative: depending on the circumstances, the direction of the effects being similar on the both parties.

Table 4-1: Framework for analysing retail event performance

Mechanisms of Promotional Sales	**Side Effects**	**Manufacturer**	**Retailer**
Variant Switching	Cannibalization of sales of other variants of the same brand	–	–
Brand Switching	Decrease in sales of other brands within the same category	+	= / –
Store Switching/ Increased Store Traffic	Increase in sales of independent categories	=	+
	Decrease in sales in competing stores	–	+
Category Expansion	Increase in sales of complementary categories	= / +	+
	Decrease in sales of substitute category	= / –	–
Purchase Acceleration/ Stockpiling	Increase in sales, if more impulse purchases	+	+
	Decrease in future demand, if stockpiling possible	–	–

+ positive impact **–** negative impact **=** no impact

Table 4-2 contains a spreadsheet that can be used in real life situations to analyse the total incremental revenue of a retail event when price information and volume estimates are known. Projected sales of the item during the event refers to the total sales of the item consisting of baseline sales and the incremental sales generated by the five promotional mechanisms. The baseline sales that would have taken place without the event are now also sold at the promoted price and thus must be included in the event volume. The side effects of the promotional mechanisms must then be either added to or deducted from this projected event revenue, after which the incremental revenue can be found out by deducting the

projected revenue without the event during the same period of time (baseline sales volume multiplied by the normal price of the item).

Table 4-2: Total incremental revenue generated by a retail event

Projected event sales during the event
x Promoted price of the item
Projected event revenue
Side effects
Variant switching
Decrease in sales of other variants of the same brand (cannibalization)
Brand switching
Decrease in sales of other brands within the same category
Store switching
Increase in sales of other categories due to increased store traffic
Decrease in sales in competing stores
Category expansion/increased consumption
Increase in sales in complementary categories
Decrease in sales in substitute categories
Purchase accelaration
Increase in sales, if more impulse purchases
Decrease in future demand, if stockpiling possible
Total impact of the side effects
Projected sales without an event during the same period of time
x Normal price of the item
Projected revenue without the event
Total incremental revenue = event revenue +/- side effects - revenue without event

When estimating event profitability and planning event execution, on the cost side all the incremental costs not included in the product's standard cost shall be taken into account. This means that in addition to marketing expenditures, all the added supply chain costs should be included in the calculations, and their impact can actually be quite significant. Following the suggestion of Vokurka and Lummus (1998, 46), the model that is built here captures the **projected added supply chain costs** that are not included in the product's standard cost in addition to the **incremental sales contribution** and the **projected marketing expenditures**. The added supply chain costs that were discussed in detail in chapter 3 consist of lost profits due to additional out-of-stocks, costs resulting from carrying excess inventory and other miscellaneous added supply chain costs. Table 4-3 is a spreadsheet that includes the components of incremental costs generated by a retail event, and can be applied both by manufacturers and retailers.

Table 4-3: Total incremental costs generated by a retail event

Marketing expenditures of running the event
Promotional allowances (non-performance deals)
Price-cuts/rebates
Promotional material
Total marketing expenditures
Added supply chain costs
Lost profits due to additional out-of-stocks
Costs due to additional/excess inventory
Additional inventory-carrying costs
Sell-out discounts
Scrapping of excess finished goods
Scrapping of obsolete raw materials
Total costs due to excess inventory
Other added supply chain costs
Total incremental costs = marketing expenditures + added supply chain costs

After all, exact "correct" quantifying of all the components of total incremental revenue and total incremental costs generated by an event may be difficult or seem impossible even after the event. However, already before running an event any company should at least think through the dynamics of the components of incremental sales contribution and costs of the event (Tables 4-2 and 4-3) in the specific context of the company. This should help to identify the beneficial promotions and initiate promotions the harmful side effects of which would be minimal.

To test the hypothesis and the logic of the framework for analysing retail event performance developed in this study (Table 4-1) it will be applied into practise in the context of salted snacks category in the chapter 5.4. The direction and significance of the side effects of the mechanisms of promotional sales will be quantitatively analysed based on the sales data of a recent retail event. Before that, the case company, its supply chain and its retail events will be generally introduced and the characteristics of the salted snacks category examined.

5 Case Study – Kraft Foods

This chapter demonstrates in practice what kind of retail events take place in the grocery industry, what kind of challenges there are and how they have been handled in the case company Kraft Foods. The chapter begins with an introduction of the case company and its snacks category. The snacks supply chain, which has gone through a revolution during the last year, will be described, and an overview will be given on the retail event types currently used in the case company. This will be followed by an analysis of the characteristics of salted snacks category with the help of the findings of the literature review (Chapters 2 and 3) and application of the framework developed in chapter 4. Then it is time to look at the current retail event process of Kraft Foods Finland. Lastly, the collaborative retail event management projects run by Kraft Foods' country organizations in the UK and Sweden will be illustrated as benchmarks for the Finnish organizations. The key lessons learnt will then be captured.

5.1 About Case Company

Kraft Foods (officially Kraft Foods, Inc.) is the second largest food and beverage company in the world with net revenues over 32 billion USD in 2004, second only to Nestlé. Kraft Foods was founded in 1903 in Chicago and has grown in 100 years from a modest cheese seller to a global company operating in more than 150 countries and employing over 100 000 people. The company has got its roots in a myriad of local food producers with long traditions as it has grown significantly by acquisitions. For the subsidiaries, the large size of the parent company means access to remarkable global resources and knowledge but also some additional bureaucracy and a number of policies that must be followed.

Kraft Foods consists of Kraft North America Commercial and Kraft International Commercial, the latter being responsible for all the markets outside the US. In the Nordic countries, Kraft Foods holds a strong position in all its product categories, with a wide product offering consisting of well-known brands. The net revenues of Kraft Foods Nordic (officially Kraft Foods AS) are some 790 million USD, and the company employs about 2400 persons.

With personnel of about 80, of which a half located at its Helsinki Office and the rest forming the field sales force, Kraft Foods Finland (officially Oy Kraft Foods Finland Ab) is an independent business unit of Kraft Foods Nordic since 1991 and is also responsible for the

business operations in Estonia since 1995. The most important categories of Kraft Foods Finland are snacks (potato chips, extruded cheese snacks, popcorn, nuts), confectionary (mainly chocolate), beverages (coffee, cocoa), and food (Mexican food convenient meals, cream cheese), snacks and chocolate being the most important ones.

5.2 About Snacks Category

This study concentrates on the retail events in salted snacks category and snacks supply chain of Kraft Foods Finland (from now on commonly referred to as Kraft). The snacks category consists of different kinds of salted snacks: potato chips, cheese snacks, other extruded snacks (shapes), popcorn, nuts and pretzels. There is everything available from large bags (over 300 grams) to be shared with family and friends at social occasions to small 30 gram single packs that can be sold as a small treat, a quick snack to be eaten between the meals, to replace a meal or even as a side dish for a meal. The sales unit to the retailers is either a case typically containing 12-18 consumer units, or a display including 10 or more cases.

During the last couple of years the market situation in the snacks category has been very difficult particularly, for the traditional brand manufacturers who have had to face the rapid growth of private label market share. Additionally, the prevalence of discussions in the media on obesity and the resulting trend towards a healthier life style in general has negatively impacted the size of the total market. The Finnish snacks market used to be dominated by two big players, Kraft and Chips, which both have lost a part of their market shares to private labels and new international competitors. Nonetheless, Chips still remains as the market leader and Kraft is still holding the runner-up position.

In 2004, the size of the total snacks market was 9900 tons of which Kraft sold about 2400 tons with a 24.5 percent market share in volume. The market share in value was slightly less (24 percent), due to the need to offer a somewhat lower price level than the market leader in certain segments, like cheese snacks. Potato chips brought 76.5 percent of Kraft's total snacks sales, and in that segment the market share of Kraft was 30.5 percent. Another important segment is popcorn in which the market share was 27.3 percent bringing 10.3 percent of total volume.

5.2.1 Snacks Supply Chain in Change

Kraft Foods Finland used to have its own snacks plant in western Finland, producing most of the Kraft potato chips and cheese snacks sold in Finland and in Estonia. The plant was also

operating as a warehouse and distribution centre for both own production and different kinds of imported snacks. The imported products had been produced in several different countries either by other Kraft plants or by external manufacturers. As a part of the parent company's Sustainable Growth Plan (a global development program aiming at more efficient operations and economies of scale by reducing costs and asset base), the Finnish plant was closed in the end of year 2004, which naturally meant major reorganizations in the snacks supply chain.

Located directly downstream in the supply chain, there are mainly two types of players: retail chain control units and distribution centres. Retail chain management staff and other personnel in retail chain control units are the key contacts of Kraft sales, as they make decisions on assortments and national events. The staff at the logistics units and distribution centres are the natural contacts for Kraft logistics and supply chain departments. In Finland there are four big retail customers, running three distribution centres (one is shared by two customers). These wholesalers supply altogether 18 hypermarket and supermarket chains. Besides, there is a large kiosk chain and a number of independent retailers that are supplied directly by Kraft without middlemen. Otherwise the individual stores always order goods from the distribution centre that supplies the retail chain to which the store belongs to. Kraft has a sales force, too, that regularly meets individual retailers in the field. Figure 5-1 illustrates material and information flows in the snacks supply chain before the closure of the Finnish plant, in the case of a retail event carried out with a hypermarket chain.

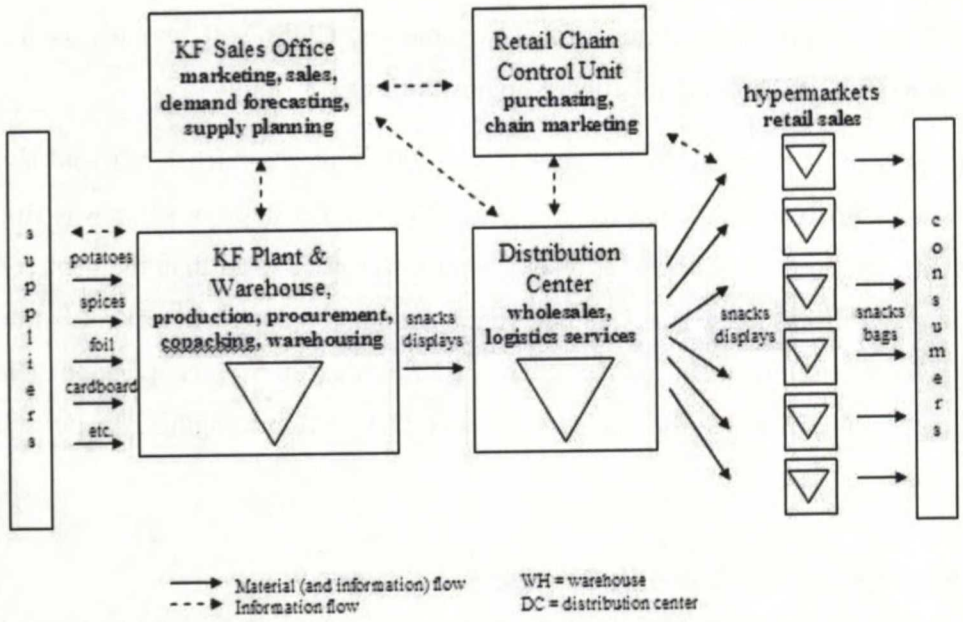

Figure 5-1: Snacks supply chain in 2004

Snacks production for the Finnish market now mainly takes place in a Kraft plant in western Sweden, from where previously some special products were already being imported to Finland. In the new distribution model, some of the products are shipped directly to the Finnish customers. Others are stored in a new warehouse, which was established in the Helsinki area. A new warehouse close to the customers was needed for products with short shelf lives and high, volatile demand to ensure the desired service level. In addition, the new warehouse serves as a copacking site for displays that are only sold in Finland and built from cases of products that are also otherwise stored in the Finnish warehouse, based on the need arising from the actual sales of each display type. Furthermore, in terms of total supply chain costs, it is more cost-efficient to import the goods as full truck loads from Sweden.

After competitive bidding and extensive negotiations, one of the international 3PL providers was chosen to become the logistics partner of Kraft Foods Finland in October 2004. The deliveries to the customers from their warehouse complex near Helsinki started in January 2005, right after the New Year season. Besides outsourcing the warehousing related operations to the 3PL provider, the staff at the new warehouse also take care of the copacking process, which was earlier carried out as "in-house copacking" in the Finnish Kraft plant, and other kinds of promotional projects. Figure 5-2 depicts the snacks supply chain after the closure of the Finnish snacks plant.

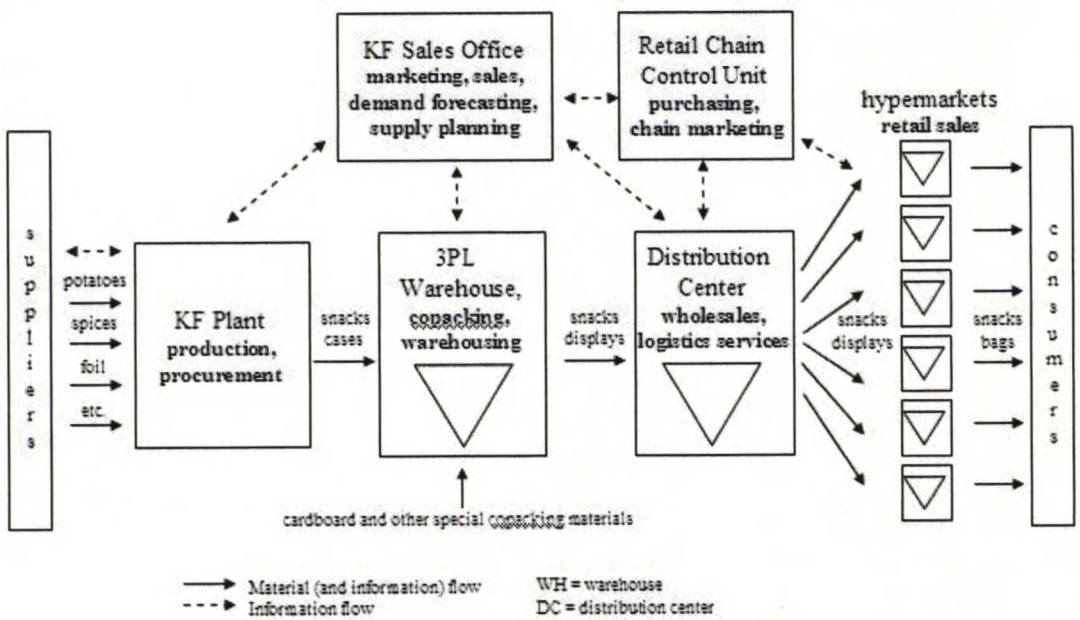

Figure 5-2: Snacks supply chain in 2005

Other than marketing, sales and customer service, the Kraft sales office has become also responsible for coordinating a part of the logistics operations that were previously taken care of by the personnel located at the Finnish plant. Now someone at the office must follow up the warehouse stock status and age profile, handle outgoing orders together with 3PL warehouse and incoming replenishment shipments together with the Swedish warehouse, place copacking orders to the 3PL warehouse, take care of freight contracts, invoices and charging and so on. This has increased the work load and altered the job descriptions of supply chain employees located at the sales office, but at the same time brought them closer to and in more contact with the customers, which is a good starting point for increasing collaboration.

It is easy to see how the supply chain has become more complex due to the centralization of the production and outsourcing of warehousing. During the last few years this has become a typical phenomenon in the industry, as stated by Uusitalo (2005, 70). In the new situation the number of parties involved in both the routine and retail event processes is higher and the lead times are longer. All this sets increasing challenges and pressure for supply chain collaboration and coordination.

5.2.2 Retail Events in Snacks Category

The most common type of retail events are **price-cuts**. This group includes both discounted prices for an individual item and multiple purchase offers. Kraft gives a discount to the customer who passes it on to the consumer. The discount can be granted in the wholesale price or it can be paid to the retailer as a rebate after the retail event, based on the actual sales. In the case of Kraft, the customer almost always also participates in the event by slightly reducing its own margin. Thus, the less than 100 percent pass-through (Blattberg et al. 1995, 125; Lummus et al. 2003, 319) is currently not a problem at Kraft. Customer Business Managers, each of whom is responsible for a key account, have relatively free hands to decide on their promotional discounts provided they do not exceed their budgets. Only for the most expensive events do they need to submit a written business proposition to be approved by the Sales Director, Brand Manager and Sales Controllers. During the first four-month period of 2005, over 50 salted snacks price-cuts had been agreed by the Customer Business Managers that were carried out in 18 retail chains.

A very colourful and miscellaneous group of retail events are **in-store events** which are arranged by the Trade Marketing department. They should always have a direct impact on

sales. For example, if the consumer gets a small gift or a sample of a new product as a reward for buying a certain product or several products at the same time, this should naturally be taken into account when forecasting the sales of the products that are sold during the promotion. In spring 2005, Trade Marketing department arranged a road show with a specific theme including tastings and a promotion where consumers got small gifts after collecting a number of bar codes. Also, tastings of a recently launched chip flavour were arranged. A particularly good example of a trade marketing event is a campaign during which when buying a bag of potato chips the consumer gets a free dip spice mix that has been taped on the potato chip bag.

Several times a year there are also **special product events**. Special products mean product variants that are not in the normal assortment in the retail stores but are sold during the retail events. Typically they are extra sized versions of normal products. Special products can be either sold for the list price of the equivalent normal product ("get 15 percent more for the same price") or they can be priced independently. The main rationale for the special products is to surprise the consumer with something unordinary and novel. Also, the retailers are more willing to allocate special in-store presentations for special products than for ordinary products, and as secondary selling areas are very important in the case of snacks, additional end-of-aisle displays are most welcome.

Logistically, special products are the most challenging form of retail events as they require special materials, and fitting their production to the normal production plan tends to be problematic. Also, the risk of remarkable sell-out and scrapping costs is extra high as the products are sold only during a limited period of time and finding an alternative use for their materials can be practically impossible. However, although the special product events are totally irrational from a logistical point of view, they have been commercially quite successful, at least in terms of volume and visibility, and thus it is likely that something similar will be executed also in the future.

Kraft executed big special product events in three big hypermarket chains in March and April 2005, with 400 gram potato chip bags of the two most popular flavours. If the initially forecasted volume is higher than the actual volume, there will be either left-over foil or left-over finished goods. Left-over foil can either be warehoused for the possible next similar special product event, but if there are no similar events coming up or if there are package design changes due to changes in brand image, the foil will have to be scrapped. As the

products are currently only sold in Finland and are of special size, the foil cannot be used for any other market or for any other product. The left over finished goods will need to be sold with a discount or eventually scrapped if the expiry is too close. On the other hand, if the event sales are higher than expected, there is little chance to produce more, as foil has to have been ordered three months before the event even begins and only the amount of foil forecasted at that time has been ordered.

Kraft also does **mass marketing**: during the first four months of 2005, there was a print media campaign advertising one of the potato chip sub-brands and a television advertising campaign communicating the new package design. However, neither television and radio advertising nor campaigns in printed media have been found to have a significant impact on consumer demand in the short term. The long term impact of brand advertising is measured, for example, with top-of-mind surveys where consumers are asked to mention brands that first come to their minds when they think of a category.

However, mass marketing is indirectly related to retail events, as advertising campaigns are used as a sales argument when the Sales department is negotiating with retail chains on national campaigns. It is felt that they prove that Kraft really believes in the event and its products and wants to invest in them. Nevertheless, the trend in the industry seems to be that retail events are replacing mass marketing to an increasing extent for two main reasons: media marketing is very expensive, and it has been observed that consumers make purchase decisions primarily in the store, meaning that the store should be the best place to try to convince them to buy a product of a certain brand.

5.3 Characteristics of Snacks Category

When thinking of salted snacks as a category, there are certain important characteristics that must be taken into consideration. Snacks are a strongly **seasonal** category, they are **perishable**, and a big fraction of purchases result from **impulse buying**. These three characteristics will be next elaborated upon, followed by a discussion of how the promotional mechanisms work in snacks category.

It can be confidently stated that the most important characteristic of salted snacks category is – at least in Finland – **seasonality**. 10 percent of the annual sales volume is sold during the three busiest weeks. For the case company the seasons are even more important: in 2004 they brought 11.5 percent of the annual volume bought by the consumers. The three biggest snacks

seasons are 1st of May, New Year and Mid-Summer. These can be clearly seen as demand peaks both in the weekly deliveries to customers and in POS consumer demand in tons in 2004, depicted in figure 5-3. In addition to the seasons, two additional clear demand peaks can be seen. These peaks have occurred due to massive special product events executed in March and October. Also, a part of the rest of the variation is likely to be due to different kinds of retail events.

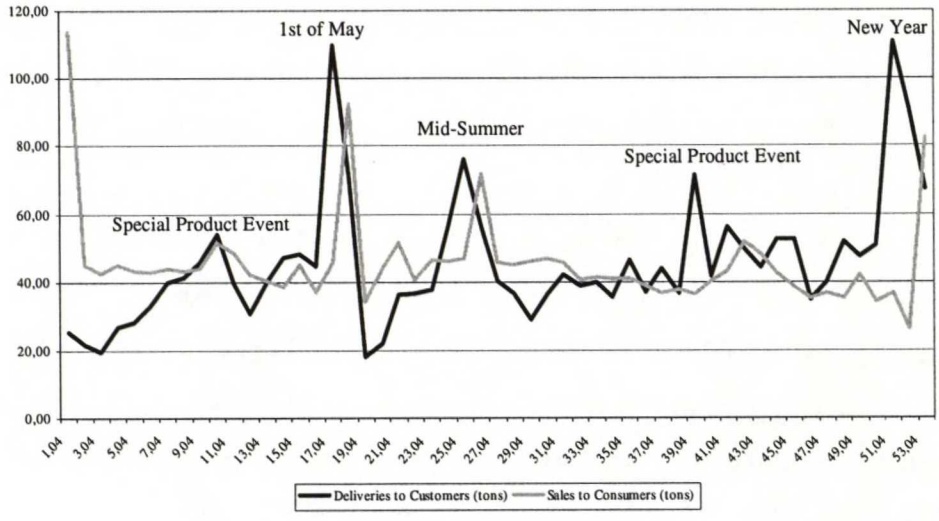

Figure 5-3: Weekly snacks deliveries to customers and POS sales to consumers in tons

An interesting although expected finding is that the variance of weekly deliveries to the customers (19.15) is substantially larger than the variance of weekly sales to the consumers (14.34). This is consistent with the bullwhip effect theory: the demand distortion propagates upstream in an amplified form (Lee et al. 1997, 546). This phenomenom is especially prevalent during large retail events, where deliveries to customers first peak and then dive, whereas the consumer demand is lot more even.

Another central aspect of salted snacks, like most of the product categories of the food and beverage industry, is **perishability**. The life cycle of potato chips and other similar salty snacks is six months from the moment of production to the best before date, which means that they are not at all as perishable as many milk or bakery products, for example, but because of the really strong seasonality of salted snacks, the importance of forecasting and smooth processes shall be highlighted. As previously stated, a critical part of the annual volume may be lost as a consumer response to stock-outs if there are not enough goods in the stores during the seasons when the sales are typically even further accelerated by marketing activities. On

the other hand, if there are lots of goods left in the inventory after a season or a big event, it is not too likely that these would be sold during the low season.

Moreover, as Kraft has got an agreement with its four biggest customers that all the cases shipped to them have at least 90 days left to expiry in order to ensure sufficient sales time for retailers, normally this time limit is exceeded by the next season, so utilizing the excess inventory for the next season is often out of the option space. This leads to having to either sell out a part of the inventory to the smaller customers or eventually to scrap it. For the consumers the perishability of snacks is rarely an issue thanks to the 90-day-rule and also as snacks are practically always bought for immediate or nearly immediate consumption.

The third characteristic that is special to snacks is that they are typical **impulse purchases**. For example, Narasimhan et al. (1996, 22) found out in their research that high impulse buying categories include candy, chips and snacks. Also Fader and Lodish (1990, 62) describe salted snacks as an example of a high frequency impulse buying category where special displays are commonly used as a kind of a reminder for the consumer. The aim naturally is to lure consumers to make impulse purchases, and in that way to increase the overall consumption which is surely the purest form of incremental sales. Salty snacks are indeed a good example of a product category where a big part of sales is impulse purchases as they are not a commodity product, something that people would always need to have at home. Instead, they are very often bought totally impulsively which means that the right kind of marketing can be a very effective tool in creating extra demand. Less than half of the consumers who end up buying snacks were planning it before going to the grocery store, thus the retail events can bring even up to 40 percent of the sales.

Consequently, marketing activities are very intense in the snacks category. Fader and Lodish (1990, 56) mention salted snacks as a typical member of the promotion cluster 2 in which both displays and features are frequent. In terms of promotional response, however, this tactic may not be ideal: as previously mentioned, the strongest promotional response is gained by higher and less frequent promotions. In the purchase cluster classification by Fader and Lodish, salted snacks belong to the cluster 1 with high purchase frequency and high household penetration, the latter being one of the factors indicating high promotional response.

Salted snacks were one of the eight categories included in the out-of-stock study conducted by Corsten and Gruen (2003). In addition to direct stock-out response mechanisms, the results of

the study also provide interesting insights regarding the category characteristics of salted snacks in general. It seems that when buying salted snacks, the brand is not too important a decision criterion, as only 15 percent of consumers bother to buy the preferred item from another store where in average this is done in 31 percent of the out-of-stock situations, and even more in the categories in which the substitution cost of using a less preferred brand is higher, like toothpaste. Consciously delayed purchases are not common either (only 10 percent compared to the average of 15 percent) which could similarly be due to the fact that salted snacks are typically often bought for specific occasions of short duration and consumed very soon after the purchase.

Furthermore, the same impulse purchase nature of snacks may also explain why it is so common that the snacks product is not purchased at all if it happens to be out-of-stock at the right moment (16 percent do not purchase item where the average of all examined categories is 9 percent). In the study, the most common consumer response to a stock-out in salted snacks category is substituting a different brand. This perception is consistent with the finding of Emmelheinz et al. (1991, 139) of how the consumers are often likely to replace an out-of-stock item with the same size and variety, but only in a different brand. Figure 5-4 summarizes the division between alternative consumer responses.

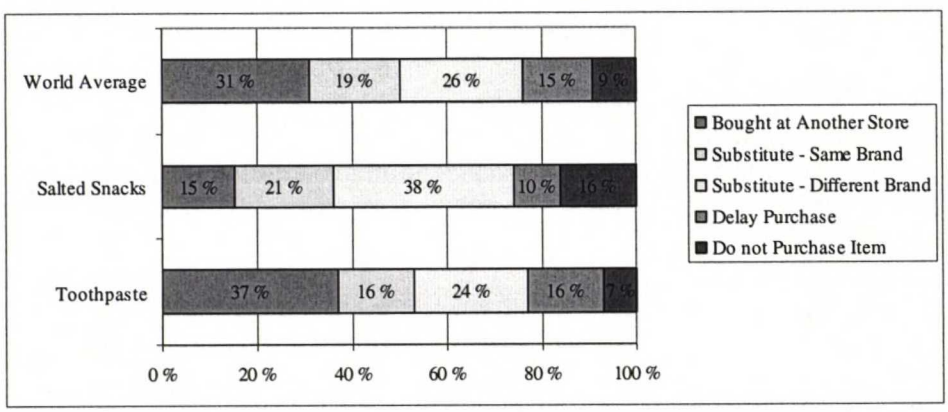

Figure 5-4: Average worldwide consumer responses to stock-outs by category (Corsten & Gruen 2003, 607)

From the retailers' point of view, the stock-outs in snacks category are not as severe as in several other categories in which the consumers have a higher opportunity cost of not being able to consume the preferred product immediately. Following the logic presented in chapter 3.1.1, in the salted snacks category retailers would lose 41 percent of the potential sales in stock-out occasions whereas the world average is 55 percent, while the figure in the

toothpaste category is 60 percent. For the manufacturer, the out-of-stock occasions in the snacks category are a lot more harmful: according to the study, the lost sales can be as high as 64 percent, the world average being 50 percent and the respective figure in toothpaste category only 47 percent. Thus taking all the possible initiative to ensure there are always products on the shelf is much more important for the manufacturer than the retailer, which may be frustrating for the manufacturer, as the biggest fraction of out-of-stocks is caused on store level.

5.4 Analysing Retail Event Performance in Snacks Category

After having a look at the general characteristics of the salted snacks category, next it will be analysed in more detail in terms of **promotional mechanisms and performance.** This will be done utilizing the framework developed in chapter 4 consisting of five promotional mechanisms and their eight side effects on manufacturers and retailers (Table 4-1).

The framework will be applied to a Kraft special product event which was executed in the potato chip segment in the spring 2005. During the event, extra sized potato chip bags (400 grams, 33 percent larger than the standard product) of the two most popular flavours (referred to as flavours F1 and F2) were sold for a special price in a hypermarket chain consisting of about 20 stores. Both display and feature activities were used to support the promotion. The market data used for the quantitative analysis measures the POS sales volume to consumers in tons in the specific hypermarket chain during weeks 7-16 in 2005 and was collected by ACNielsen. The sales data from the equivalent weeks of the previous year are used as points of comparison.

In terms of pure sales volume of Kraft potato chips, the retail event was very successful as the sales increase of Kraft potato chips was about 50 percent on average and during the best event weeks the sales more than doubled. However, as illustrated in the previous chapters, promotional sales may have significant positive and negative side effects which will now be analysed applying the new framework.

Variant switching is the first of the mechanisms of promotional sales in the framework for analysing retail event performance. That is likely to have a negative impact on the profits both of the manufacturer and the retailer, as the person switching the variant within the brand would have bought otherwise a normal priced product and due to the promotion buys a

product with a lower margin instead. The promoted product cannibalizes the sales of other flavours and other package sizes of the same brand.

In the case of the example event, variant switching happened most commonly from the standard 300 gram bags to the extra sized promoted products of respective flavours. During the event weeks 9-15, the weekly sales of 300 gram bags of flavours F1 and F2 were on average 43 percent lower than during the respective weeks in previous year. The effect on other Kraft products was less significant, at around 18 percent. As the drop in the baseline sales is clear, it has to be taken in the account as a negative impact in the profit calculations of both the manufacturer and the retailer. Figure 5-5 depicts Kraft potato chips sales volume in tons during the examined periods of time.

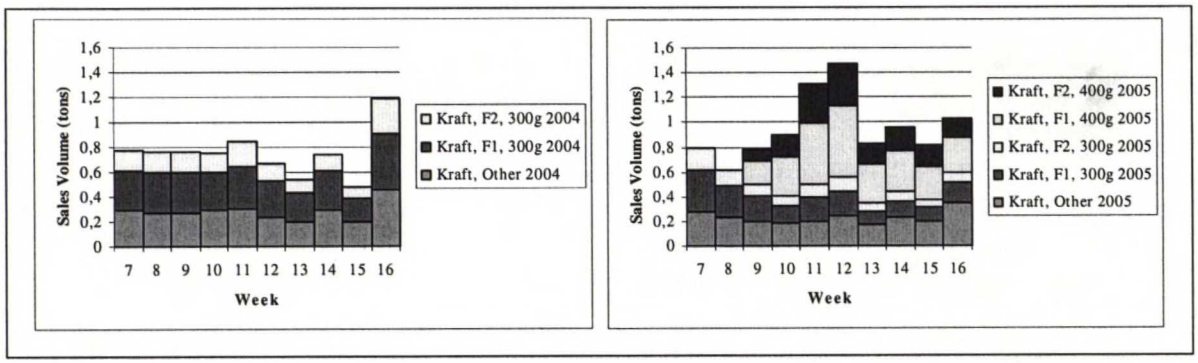

Figure 5-5: Kraft potato chip sales volume in tons

In longer term, variant switching could have positive consequences if the retail event encouraged consumers to try new product variants and find new favourites they will buy again later for the full price. On the other hand, if the price cut is valid only for the most popular variants, as in the example case, the consumers may be even less willing to try new tastes in the future.

Brand switching is the source of incremental sales that makes the manufacturer happy, whereas the retailer is not too interested in it – at least as far as it does not have a corrupting effect on the total category result due to too much sales of lower margin promoted products. As found out in the out-of-stock study that was previously summarized (Corsten & Gruen 2003), the brand seems not be too important for the consumers buying snacks. Thus brand switching may be one of the main sources of incremental sales of a certain snacks product meaning simultaneously a decrease in the sales of other brands within the same category.

The sales data from the example event suggests that some brand switching took place during the event, as the sales of the potato chip products of the biggest competing brand, Chips, were

about 11 percent lower during the event weeks in 2005 compared to the previous year. Even though the drop in this case is relatively small from the retailer's perspective and is not likely to have a significant effect on the overall category result as the event otherwise performed well, still it shall be taken into account. From the manufacturer's perspective it is satisfying to see that during the event the market share of Kraft potato chips rose to even more than 50 percent during the best event weeks, whereas the market share in the previous year was around 35 percent. Figure 5-6 illustrates the total potato chip sales volume in tons in the hypermarket chain where the event was executed.

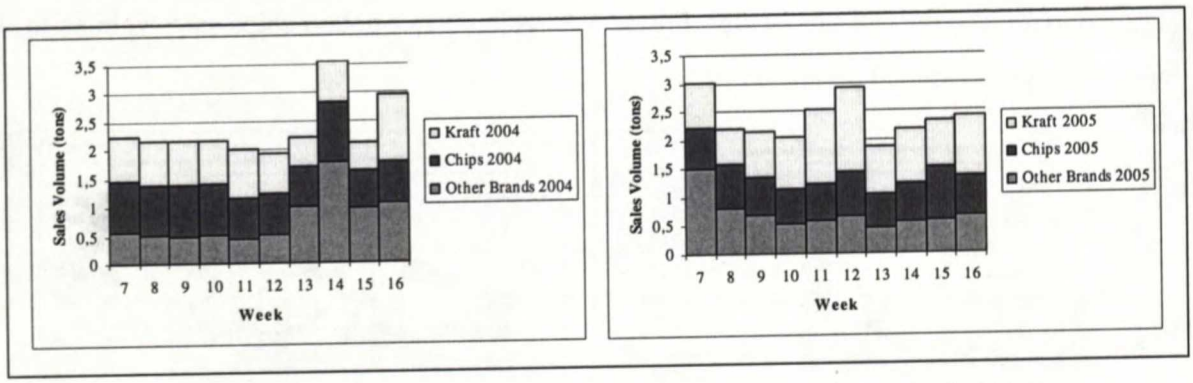

Figure 5-6: Total potato chip sales volume in tons in the example hypermarket chain

As a clarifying remark regarding the figure 5-6, it shall be mentioned that the peaks in the sales of other brands during the weeks 13-15 in 2004 and the week 7 in 2005 are due to promotions executed by smaller competing brands. Another issue that can be pointed out is that the volume of other brands than Kraft and Chips is also generally higher in 2005, especially due to increase in sales of private label products.

As explained in chapter 4, **store switching** and **increased store traffic** are of great interest for the retailers, as very few customers come to a grocery store to only buy snacks and thus the additional customers can bring additional sales also in other categories whose sales are totally independent of snack sales. For the manufacturers, store switching is a relatively irrelevant phenomenon, and might have a negative effect only if a significant fraction of consumers turned out to be cherry pickers following promotions, as in this case once again the proportion of less than full margin sales would increase as a consequence of the decrease in the sales of competing stores selling the promoted product with a full margin. However, as the out-of-stock study demonstrates, consumers do not seem to be too keen on making the effort to get a specific snacks item, which could imply that a potato chips event might not give enough of reason to switch a store either.

The sales data from the example event reveals the hypermarket chain's share of the total Finnish potato chip market was in average 0,2 percent units higher (2,4 percent instead of 2,2 percent) during the event compared to the previous year (Figure 5-7). It would be too speculative to relate any changes in the sales in other categories independent of potato chips to this phenomenom simply based on the sales data. However, so the positive effect of increased store traffic cannot be proved with the available data. To be able to make those sorts of conclusions, in-depth analysis of the behaviour of individual consumers would be needed, for example, regarding how many of the consumers who bought promoted products normally shop in another store. Store switching is not likely to have a negative impact on the manufacturer in this case anyway, as the market share of this specific hypermarket chain is so small that significant amount of full priced sales could not be lost in other retail chains.

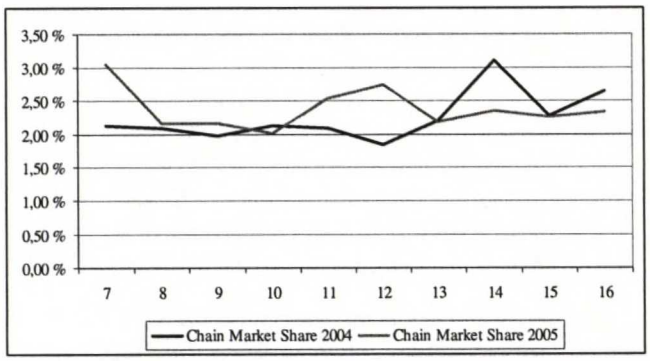

Figure 5-7: The hypermarket chain's market share of the whole Finnish potato chip segment

Category expansion is the purest form of incremental sales, and most of the volume accumulating from impulse purchases belongs under this heading. As a positive side effect, increased consumption of potato chips may result in increased sales of complementary categories, such as beer. Respectively, it may reduce the consumption of substitute products, such as popcorn or crackers. For Kraft the event works especially well if the consumer decides to buy a dip spice mix to complement the discounted potato chip bag, and the retailer will benefit even more as sour cream is also needed to prepare the dip. This kind of bundling is one of the most important insights into events: in an ideal situation the promoted item increases sales of full priced items with good margins.

Figure 5-8 shows that the sales of snacks products other than potato chips have not suffered from the event: during both of the years the potato chips have had about 60 percent share of the snacks category and the rest of the sales has been generated by popcorn and other snacks, so there does not seem to be a negative side effect on substitute categories. The possible

increase in the sales of complementary categories remains unfortunately unproved, as similar to the store switching behaviour, with the available data it is not possible to analyse the link between the sales of separate categories reliably. In every case it seems that, as theoretically is rational, in the example event a lot of incremental sales were generated by category expansion without negative side effects, which naturally benefits both the manufacturer and the retailer.

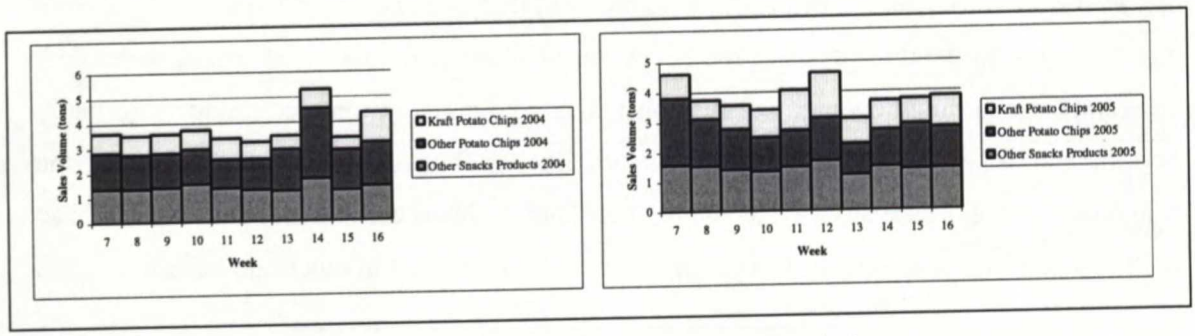

Figure 5-8: The total snacks sales of the example hypermarket chain

The last of the mechanisms of promotional sales is **purchase acceleration**. It means that the consumer buys the item earlier or more often than intended. Depending on the category characteristics this may be either a good or a bad thing. If the category is characterized by impulse purchases, like salted snacks category is, this is likely to lead to increase in total sales. However, if the promoted products are susceptible to stockpiling (neither perishable nor bulky), the promotional response may be very good, like noticed both by Raju (1992) and Narasimhan et al. (1996), but it may lead to a decrease in future demand. Fortunately, in the case of potato chips or other salted snacks, their **bulkiness** discourages stockpiling behaviour.

Also, although perishability in terms of actual deterioration is seldom an obstacle for the stockpiling of potato chips at private homes, most consumers find it hard to avoid the temptation of eating the snacks if they know they have some. This suggests that in the snacks category purchase acceleration is normally only a good thing both for the manufacturer and retailer. Also the sales figures of the total potato chip sales support this finding, as there is no drop in the total potato chip sales after the event (Figure 5-9).

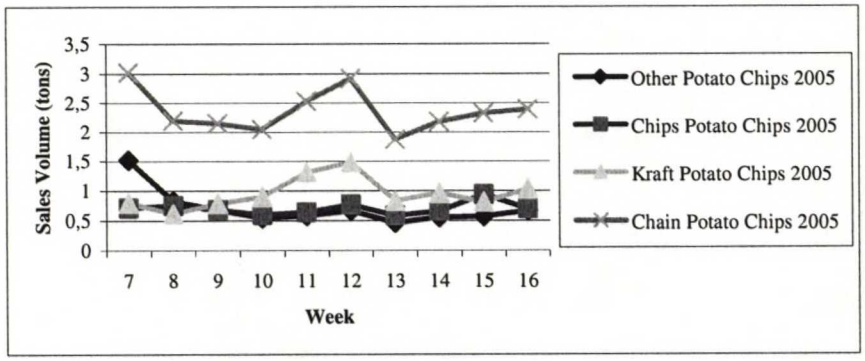

Figure 5-9: The total potato chip sales of the example hypermarket chain

Table 5-1 summarizes the discussion on how the promotional mechanisms work in the potato chip segment of the salted snacks category. Based on the theoretical framework and the empirical observations, the conclusion is that retail events fit well to the snacks category and negative side effects are relatively small compared to the sales increase of Kraft potato chips of about 50 percent on average during the event weeks, compared to the same weeks in the previous year. The most important sources of incremental sales are category expansion with its positive side effects and purchase acceleration which in this case is not likely to lead to stockpiling behaviour.

Table 5-1: Retail event performance in the salted snacks category

Mechanisms of Promotional Sales	**Possible Side Effects in Potato Chip Segment**	**Manufacturer**	**Retailer**	**Comment**
Variant Switching	Cannibalization of other variants of Kraft potato chips	–	–	Sales of respective standard products decreased 43 percent
Brand Switching	Decrease in sales of other brands within the potato chip segment	+	–	Sales of the biggest competitor decreased about 11 percent
Store Switching/ Increased Store Traffic	Increase in sales of other categories independent of snacks sales Decrease in sales in competing stores	=	+?	No side effect on the manufacturer as the market share of the chain is so small; effect on the retailer cannot be proved with available data
Category Expansion	Increase in sales of complementary categories, like dips and beer Decrease in sales of substitute categories, like crackers	+? =	+? =	Positive effect on complementary categories cannot be proved with available data; no decrease in sales of other snacks products
Purchase Acceleration/ Stockpiling	Increase in sales, if more impulse purchases Decrease in future demand, if stockpiling possible	+	+	No drop in sales of potato chips after the event, impulse purchases typical and stockpiling unlikely

+ positive impact – negative impact = no impact

After applying the new framework into practise and going through all of the five mechanisms and eight possible side effects of retail events in the case of a potato chip special product event, it is needed to make a few additional remarks regarding the limitations of the analysis. First of all, in the retail environment there are different kinds of marketing activities of various brands going on constantly, and thus sometimes a retail event may not give terribly good results, even if it was properly planned and executed.

Secondly, comparing the sales results even of two successive years may be misleading, as for example, a competitor's actions may have affected the history data. Also as explained in the previous chapter, snacks are a very seasonal product, and thus for example holidays, such as Easter, that are moving from year to year may cause confusion when looking at the weekly sales figures if their effect is not taken into account.

Lastly, it should be kept in mind that in this quantitative analysis only the sales volume figures were covered, since from the supply chain perspective they are critical. However, an essential next step would be to analyse profitability based on the sales value figures. However, although finding a neutral point of comparison may be problematic and analysing the event results thoroughly means some additional work, systematic attempts to analyse retail events, their incremental sales contribution and the incremental costs caused by them is the only way to find out what kind of events gain the most profitable response and to learn how to be better prepared for future events.

5.5 Retail Events at Kraft Foods Finland Today

Due to the nature of the products of Kraft Foods Finland, retail events are very important for the company, and practically all the time there are different kinds of campaigns and promotions going on with one or more customers. Since Kraft is not the market leader in Finland, the retail events are of especially great importance. Furthermore, it should gain a better promotional response than its leading competitor, according to Bolton (1989), who found in her study that the lower the market share, the better the promotional response. Blattberg et al. (1995, 123) report a similar finding. In this chapter an overview will be given of the retail events in the snacks category and on the challenges of the current retail event process at Kraft.

5.5.1 Objectives of Promotions

At Kraft, the most important objective of retail events by far is volume. When interviewing people in different departments participating in the Finnish retail event process, every one of the interviewees mentioned volume as the primary goal. Some secondary objectives were mentioned too, although not too spontaneously: Several persons brought up the visibility of the brand in the stores and reinforcing the brand image as objectives. One of the Customer Business Managers explained that although getting extra volume may be expensive, it is fundamental to avoid starting to lose assortment ratings as a consequence of decreasing sales figures, which could lead to a vicious cycle of losing even more sales due to having fewer products in the assortments. In another interview the events were called "a precondition for any trade with the customer".

The Marketing department has got a long list of general objectives for promotions: They should provide consumers with added value, and bring incremental sales both to the manufacturer and the retailer. The events are also hoped to shape the consumer demand, work as a "teaser" for a new product before the launch, encourage the consumers to use new products, and improve the coverage of the products in long term. Good promotions are easy to implement and can be adapted to the needs of most of the customers. Ideally they also work well without retailer support from the retail chain control unit meaning for example that no changes in the product numbers or other masterdata are needed. Additional internal objectives of the promotions are improving the market share and improving the market position, getting a lead over a young rival and shaking the position of the corresponding products of the market leader.

One thing that unfortunately gets relatively little attention as an objective of the events at the moment is event profitability. Depending on the person, Customer Business Managers make different kinds of profitability calculations before offering events to the customers, and in the case of the biggest events, these plans are also reviewed by Controllers and the management group, but for example no systematic post-event profitability tracking takes place. Currently the situation is partly due to on-going personnel changes and temporary shortage of resources, and once the head count is full again, more emphasis should be put on tracking account and event profitability.

5.5.2 Current Retail Event Process

Following the advice of Handfield and Nichols (2002) on the importance of understanding the supply chain process, the current promotional processes and practises of Kraft will be next described in detail. The retail event process can be divided into six phases (Figure 5-10): event planning and approval, preparation, sales, production, order-delivery process and event analysis. The number of tasks that need to be carried out within each of the phases depends on the nature of the retail event. For a pure price-cut with standard products, the process is quite straightforward and swift, whereas in the case of special product events the preparations may have to be started even already half a year before the event.

As is common in the retail industry (Home 2003, 13), Kraft retail event planning is based on an annual plan. The Marketing department presents their annual marketing plans late in spring or early in summer. Based on this, the Customer Business Managers then put together annual customer plans, which are presented internally around August. These customer plans serve as the starting point for the event landscape of the entire following year, but often the events can be quite different from the early plans, especially those taking place in the following fall. A typical campaign planning cycle for retail chains is four months within which one-month-long end-of-aisle campaigns are common. Three annual periods (typically from January to April, from May to August and from September to December) are also the planning periods for new product launches and other category decisions.

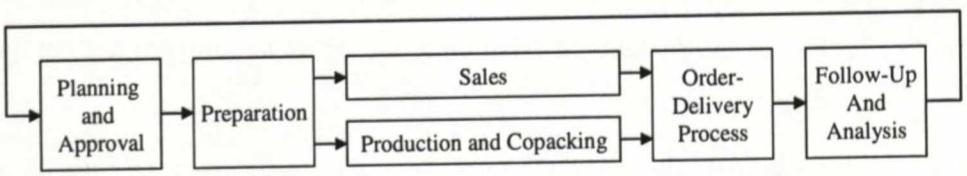

Figure 5-10: Six main phases of the retail event process in Kraft Foods Finland

A basic retail event process starts when a Customer Business Manager sketches an event, prepares an offer and presents it to the customer, sometimes both to the retail chain management and to the wholesaler, if needed. Often the initiative comes from the manufacturer, but some of the customers also provide Customer Business Managers with their marketing plans and invite them to submit offers for specific kinds of promotions to be a part of a bigger cross-category event.

After the event has been presented, the retail chain management decides whether or not they approve the event. If making trade with regional cooperatives, the Customer Managers (who

form the field sales force) may also need to ensure the approval on cooperative level. Getting an official approval from the retail chains may take very long. In addition to the planning cycle, the corporate structure of the customer may slow down the process in the customers end especially if the degree of chain control is low. The approval for a campaign may come very late, sometimes only a few weeks before the event.

In the basic retail event process when no special packaging or other requirements exist, the preparation phase mainly covers setting an aggregate volume estimate into the sales forecasting system. The sales phase starts when the practical details of the event are introduced to the Customer Managers in a sales meeting that is kept every other month before a new sales period begins. That is also when the sales targets are set. During the sales period, the sales force continuously electronically report how the field sales are going. Customer Business Managers follow up this information weekly and can update their forecasts based on it, if necessary. The Customer Business Managers only submit monthly figures into the system, so it is important that also the Supply Planner is aware of when exactly the event takes place so that she can manually allocate the exceptional needs on a weekly basis.

The field sales often end only as little as a week before the event begins, so the production and copacking must have taken place before the "final" volume that the customer is going to order is known. In reality, the final volume is known before the event only if the Customer Managers are allowed to collect advance orders, which is nowadays done only for the biggest events and season. Otherwise the final volume is known only after the event, because the stores do not necessarily order exactly the amount they have agreed with the Customer Managers.

If the field sales take place close to the event, production and copacking happen simultaneously with the sales. In the case of a basic event that is normally not a problem, since the same products would be in the production plan anyway and only the amounts will be higher due to the even. Therefore the only special actions that the event causes are informing the plant on the updated forecast and the 3PL partner on the possibly peaking copacking needs. The plant gets the forecasts naturally also via the ERP system too, but as the events often require high volumes on a specific date, the Supply Planner normally double-checks with the Plant Manager that enough capacity has been allocated for the production of campaign products. Also the 3PL partner needs the volume estimate early enough to be able to take it into consideration when planning staffing.

The basic retail event order-delivery process follows the routine order-delivery process. Kraft gets the orders from the wholesaler at least three days before the event, the deliveries from the warehouse to the wholesaler happen the following day and the retailers get the products a day after that. The only possible extra task is to inform the freight company of the additional transportation capacity needs if the one-off volume during a specific date is very high. The warehouse team takes care of this.

The analysis phase should follow the event, but currently relatively little feedback is collected and the analysis is quite limited. Depending on the situation, the retailers may report some sales figures. This is normally done if the customer is rebated based on the actual sales. Every now and then the Kraft Category Managers analyse the market data from the event perspective. The Customer Business Managers may go through the results of the analysis with the customer on a face to face basis or simply send them by e-mail. In general, the event analysis was often overruled by planning the next events, and especially those Customer Business Managers who take care of several retail chains felt that they simply do not have enough time for the analysis.

The special product events include quite a few more tasks than basic events. Already in the planning phase, the packaging material and capacity availability must be preliminary checked. In the preparation phase it must be ensured that all the required masterdata, such as new product numbers and codes, are open in the information systems of both the customer and Kraft. Also a replenishment order for packaging material may need to be made very early, as the current lead time is around three months. The sales force practically always collects advance orders for special product deliveries, which also cause some additional administrative actions. Depending on the customer's working practise, the order-delivery process may be different from the standard routine and be partly handled manually. To make special product events possible, the customer may have had to agree to stretch their rules, and thus to ensure cooperation in the future, it is extremely important that everything goes flawlessly.

5.5.3 Challenges Related to Retail Events

A number of problematic areas and challenges can be identified in the current retail event process. First of all, the event decisions and all other event related information seems to continuously become available "*slightly too late*". This is partly due to the planning cycle, decision-making mechanisms and other working practises of the retail chains, but the delay is often lengthened by **insufficient internal communication**. Taking into account how many

people are involved in essential roles in the planning and execution of retail events, the internal communication breakdowns between Kraft departments are surprisingly rare, but the risk of their occurrence is high, as there is no central coordination or formal process for retail event management.

The current retail event process at Kraft Foods Finland relies heavily on the Sales department. It is natural that the business responsibility belongs to the Customer Business Managers, but it would be important that everyone involved understands the whole process. For example, the Supply Planner mentioned that *"sometimes someone forgets to inform Supply Chain."* Another of the interviewees explained that *"the worst thing is when someone promises to take care of something and reveals only very close to or after the dead-line that he is not able to complete the task. If he had told earlier, another solution could have been found"*. A crossfunctional, collaborative approach should help to get people realize how the different phases and tasks of the process are linked to each other and thus motivate them to take care of their own tasks in time.

At the moment, the **event information is very fragmented and sometimes asymmetric**, and it is not stored centrally so that it would be easily available for everyone who needs it. When looking for information on events, for example sales meeting presentations, sales targets of the sales force, the so-called "volume plan" (a template for tracking periodical and quarterly account-specific volume) and forecasts in the sales forecasting system may be useful information sources. However, most of the execution details are only handled in numerous informal discussions and e-mail messages, and stored in the memory and private notes of the Customer Business Managers.

Several Customer Business Managers mentioned stock-outs as the most severe problem of events. *"The biggest problem in the retail events is that we run out of campaign products - continuously. There are a million reasons for this."* One unfortunate fact is that there were certain issues repeating from year to year that caused problems. For example, in terms of analysis and follow-up, a repetitive problem was brought up: *"It's not only once or twice that it has happened that we have run out of goods as each time the forecasts have been based on the sales of the previous year and no one has checked the shelf availability.*" This is a good example of the problems that the **lack of systematic follow-up and analysis** of events can cause.

For the special product events part, the special foil needed for the extra sized or otherwise non-standard products was experienced to be the most common bottleneck: *"If something goes wrong, it is almost always the foil. Either the production runs out of it or then it arrives too late."* The lead time for foil orders from the supplier to the plant is at least eight weeks, but in practise three months is often used as the lead time to ensure the delivery in time, although there still may be surprises. In the worst case, **delays in the packaging material deliveries** can delay or impede whole events. At the very least, they cause a significant amount of unnecessary hassle and stress. The foil issue is also otherwise very problematic. The long lead-time means that the foil must be ordered based on very early sales forecasts, which are often overoptimistic and thus may lead to high scrapping costs of foil leftovers. On the other hand, excessively low foil orders may set an upper limit for the sales or mean running out of it during production.

The **late confirmations of events** are also very problematic for Kraft, as the packaging material orders and even production and copacking may have had to be done before getting the official approval from the customer. If the event was cancelled for some reason, it would be a real problem to get rid of the additional stock. As explained above, only in the case of some special product events the final volume may be known before the event if the Kraft sales force has got a possibility to collect advance orders, but even in this case the final information comes so late that the material orders, and often also the production must have taken place beforehand.

Citing the interviewees, "*the only thing that can be said about forecasts for sure is that they are wrong*" and *"only the God knows how much sales there will be"*. Sales forecast accuracy is one of the key performance indicators of both the Supply Planner and Customer Business Managers. Nevertheless, the Customer Business Managers tend to systematically submit **over-optimistic forecasts**. *"There is no point in converting forecasting to art or science. It does not really matter at all if the estimate is 30 tons or 50 tons."* In a way it is understandable that from the perspective of the Sales department it is tempting to place forecasts that are rather on the high than on the low side, in order to ensure availability in an uncertain situation. For that reason, expressing explicitly the added supply chain costs caused by excess inventory, sell-out discounts and scrapping and taking them into consideration when assessing event profitability might be useful. The risk caused by the trade-off between stock-outs and excess inventory should be shared between the two departments.

The interviewee representing the customer organization stated that "*the biggest favour a manufacturer can do for the retailer is to take care that everything works well within their own organization*". Additionally, he named **forecasting and event analysis** as the most important areas for collaboration, as those are the areas that are currently **not getting enough attention** on their side. Whereas the retailers have a great number of products and categories to look after, the manufacturers should be specialists with their own products and categories, and thus the latter ones should be able to make the best forecasts. Thus it is not surprising that the current role of the customer in forecasting is very passive. Quite often it is the customer who asks Kraft for an estimate of the event sales and then the customer places the order based on these figures. However, there is no volume commitment from the customer before the event, but still if the event does not sell as well as expected, some customers may try to get additional rebates from Kraft to support the sell-out process in order to get rid of the excess inventory. Also in terms of analysis, the retailers feel they have so many events going on simultaneously that they do not have enough resources or interest to analyse them all in-depth. The rationale of this reasoning is solid, since there is no point in both parties duplicating each others' work. The underlying challenge is to determine who is willing to finance the extra resources needed for the new working practises and how the profits should be shared.

5.6 ECR and CPFR at Kraft Foods

Kraft Foods has been an active member of the ECR community from its beginning, and Kraft Foods North America has been successfully implementing its own ECR program called Kraft Delivers. Based on the promising ECR experiences in the US, Kraft International Commercial is working on a similar concept adapted to its business environment under the brand name Kraft Plus. Kraft wants to be a preferred partner of its customers, and the idea of Kraft Plus is to make the business of both the customer and Kraft more efficient and effective, ie. "grow the cake", by providing practical solutions to the challenges that the company and its retail partners face across the demand and supply chain.

Kraft Plus consists of three sections: Insight, Demand and Supply. The Kraft Plus Insights section aims at providing customer with information on the category, shoppers and consumers and ways to grow the category. The Kraft Plus Demand section includes strategic and tactical tools for category management, assortment, layout and retail solutions. Most interestingly from the perspective of this study, an evaluation and modelling tool that measures uplift of

different promotions and their impact on category performance is also included in the future options. However, so far this relatively expensive commercial software has not been in use in Kraft Foods Finland. Furthermore, efficient planning including CPFR initiatives belongs to the Kraft Plus Supply section together with supply enablers and technologies, efficient replenishment, efficient logistics and excellent quality.

Kraft Foods North America was also among the first companies developing CPFR concept in the late 1990s. The concept was brought to the UK in 2000, but the original 9-step CPFR project designed by VICS was experienced to be too complex and thus rejected by the grocery industry. In Europe, retailers were found to be even more reluctant to share data for free, and CPFR was not as high on agenda as many other development programs, such VMI (vendor-managed inventory). However, during the last five years the situation has been gradually changing, and new, streamlined collaborative programs are being developed.

For example, Kraft Foods UK (KFUK) decided to concentrate on event management instead of the original heavy process, and pioneered in the European organization the adaption of the original CPFR concept to the European circumstances. An initiative called Joint Event Management (JEM) was initiated, and is now an important part of Kraft Plus efficient planning component. In the Nordic subsidiary, Kraft Foods Sweden was the first one to start the JEM trials a few years ago.

When analysing the retail event management process and practices of Kraft Foods Finland and sketching a future model, the Kraft Plus experiences, useful examples and lessons learnt in other country organizations can be of great help. The following descriptions and analysis on JEM in the UK and Sweden are based on interviews with supply chain professionals involved in the JEM projects in its different stages. Also some internal material, such as presentations, and other project documentation, has been utilized as a source of information.

5.6.1 Joint Event Management in the UK

As stated also in the literature, promotional activity has got a greater impact in the European retail environment than in the US (ECR Europe, 2001, 39). In Kraft Foods UK, 45 per cent of total volume is sold on promotion. That is why it was felt to be a necessity to take a more proactive approach to the promotional process. After the early difficulties, the JEM project in the UK has indeed become quite a success in five years. In a nut shell, the idea of JEM is to manage promotions by exception, utilizing a software platform that displays a comprehensive

suite of event related information and in a collaborative relationship both between sales and supply chain personnel and between customer and Kraft.

Already in the early stages of the CPFR/JEM project in Kraft Foods UK, four fundamental learnings were captured: First of all, the **culture** must be collaborative, otherwise there is no chance of being successful. Secondly, the **relationship** to the customer is very important because it is the partner's responsiveness that sets limits to the potential of the collaboration. Thirdly, **communication** is critical. It must be clear and specific, and the general advice is to communicate solutions, not problems. The fourth element is **trust**. If there is no trust, neither will there be actions nor improvements. According to the UK project documentation, these elements must be addressed to really make a difference with the initiative, and when choosing possible partners for the first CPFR/JEM pilots, it is especially worth paying attention to these issues. It could be added that another insight into this issue is that these four elements definitely are interrelated: for example, without communication there hardly is trust and without trust the culture really cannot be truly collaborative.

In addition to the "soft" elements (culture, relationship, communication and trust) that are prerequisites for a successful collaboration and retail event management, a structured process is also needed. The JEM process in the UK follows a simple **plan-do-review** cycle similarly to the 3 step CPFR process developed by Kraft Foods NA. The planning and forecasting phase can start as early as about 26 weeks before the event. The preparations for replenishment start about 13 weeks before the event, and the details of the event are fine-tuned continuously until the event. The third step, event review, should be carried out right after each event, but that is the area that has currently been given less attention in the UK, and the people running the process admit that more could be done in terms of analysis.

The people who are included in the JEM process in the UK represent mainly Sales and Supply Chain departments within Kraft, and Buyers and Supply Chain on the retail side. The goal is to get all these people to work in alignment basing their decisions on the same robust promotional data. Customer Service side is the part of Supply Chain department that is mainly involved, but occasionally Kraft employees from the Supply side, such as Inventory Planners, also join the meetings, although normally they only work in collaboration internally with other Kraft departments, not directly with the customer. In practise, the Customer Service Manager, the relevant Customer Service Coordinator and the Account Manager keep monthly meetings with the customer's representatives, typically Category Manager and Supply

Analyst, who is the person who raises the actual orders. After the meetings, Inventory Planners are provided with all the new, relevant information, so that they can make decisions regarding changing the production plan or contact the raw material suppliers, if needed.

Regular communication forums are seen as enablers for building a collaborative relationship and working practise. The original idea was to have devoted meetings for event related issues, but nowadays the meetings are seen more as a part of the whole area of collaboration, not only JEM. In the meetings, the discussions focus on what is happening at the moment with the events and otherwise in the business, if the performance is as expected, and what should be done differently. These meetings are sometimes called 30-60-90 meetings, numbers referring to the days remaining before an upcoming event: 90 days before the event it is time to discuss and plan what is ahead, in the 60 days meeting the plan becomes more detailed, and 30 days before the event it is the final time to agree on the execution plan, forecasts and possible uplifts or steals in the demand. Even though the customers are not too active in analysing the category data as they have so many categories and products to look after and rather expect Kraft people to be experts regarding the company's products, they still do make their own demand forecasts. In the 30-60-90 meetings these forecasts are then compared to Kraft forecasts and the goal is to understand the differences and agree on one set of numbers.

In the UK the JEM process is defined to be "led by supply chain and directed by trading". Customer service people mainly run the process on the everyday level receiving the exception alerts generated by JEM software platform in case of any significant changes in input data and coordinating the corrective actions, but the involvement of sales people in the process is vital, as they are the ones planning the events together with the customer and submitting most of the valuable information in the information systems. For that reason, the first challenge in the process was to increase collaboration among supply chain and sales departments, and engaging sales from the start is definitely among the key take-outs of the UK project.

The first task of JEM software platform is combining event related data from three different information systems (Figure 5-11). PCE (Promotional Control and Evaluation) is a system where Account Managers submit all the information of the upcoming events of their customers, including the promoted SKUs, the forecasted volume and the dates of the event. This information is the basis for phasing of the shipments, and used to analyse commercial viability of the event and possible capacity constraints. The other system in the background is the daily sales reporting tool which provides the information on actual customer orders and

shipments. Thirdly, customer information, such as EPOS data, and distribution centre and store stock levels (for some of the customers) are also utilized in JEM. The customer submits the data to an Extranet solution from where Kraft personnel loads it to the JEM database. Furthermore, manual updates, for example regarding customer forecasts, can be done directly in the database.

In addition to incorporating information from different systems, the JEM application includes two further functionalities. The second component provides access to all promotional information and to the phasing of the promotions, for example in the form of Gantt charts. The third component monitors the event performance, automatically generates exception alerts daily when a business rule is violated due to changes in the data, and sends the exception alerts by e-mail to customer service coordinators.

The business rules are defined in the JEM system, and they assess continuously the performance and commercial viability of the promotion. The most common situations resulting to an exception alert are over- or underperformance of an event (actual shipments and EPOS data are compared to the forecasts), changes in forecasts for events, changes in start or finish dates of events, entering a new event to the system or an event being due to begin. Based on the exception messages, the customer service team can identify the critical changes and take immediate corrective actions, if needed, like asking inventory planners to alter production plans in order to be able to respond to the surprisingly high demand. On the other hand, if the customer is ordering a lot more than forecasted with very low profit, the decision can as well be not to supply more products for the promotion.

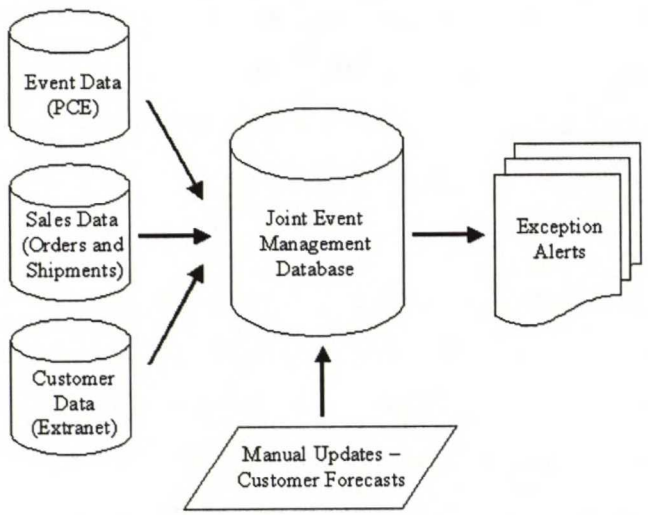

Figure 5-11: Joint event management software components in Kraft Foods UK

The beauty of the JEM platform is that it enables the employees of Supply Chain department to focus on key issues instead of having to try to review all aspects of all events continuously. Thus decisions can be made systematically and consciously, and there is less randomness in the process. The history data on events that is stored in the database can be used for assessing past performance of promotions which is very valuable in longer term planning. The JEM database itself is used only internally within Kraft, but it provides valuable input for inter-company meetings. However, these gains can be achieved into some extent also without the software, and it shall be highlighted that the process needs to be well established before developing any technology. Ignoring this was probably one of the biggest problems in the early CPFR projects a lot of which tended to be technology-driven.

However, when the process is in shape, the technology can be a very valuable and effective enabler of collaboration. Before the JEM platform it would not have been possible to include all the events and promotional volume in the process as the amount of manual work would have been too high. Thus applying the 80/20 rule both to the events and to the customers that are included in the JEM process was suggested. As the grocery market in the UK is highly concentrated (80 percent Kraft UK's business comes from top 6 customers) and centralized (more than 90 percent of each big customer's volume goes via central distribution), it was possible to start developing a collaborative process for mutual benefit effectively with the largest customers already before starting to utilize the software tool.

Now when the approach is exception driven, the software does most of the tracking, and as the process is the same regardless of category or customer, it is possible to include more of the sales volume in the process. Currently the company's entire promotional volume of all three categories marketed and sold by Kraft Foods UK goes via JEM procedure, and the model is used with the eight biggest customers. The baseline volume or new product launches naturally are not included in JEM database, but also they are covered in the collaborative meetings.

The reported benefits of JEM during the last seven months sum up to almost 1,4 million pounds against additional direct costs of only 80000 pounds that have been invested in special software and training the staff. The indirect costs are naturally a lot higher as a lot of work time must be invested in running the process, having meetings and going through exception alerts. On the other hand, the work would have to be done in one way or another in every case which may make the additional indirect costs less significant.

The most common type of benefit and the second largest group in value (35 percent) were incremental sales opportunities: the promotions that were overperforming were identified by JEM, and consequently the forecasts could be increased. In that way incremental sales were secured without going out of stock for other customers. The largest group of benefits in value (57 percent) were instances where unnecessary production of promoted articles for underperforming promotions was avoided. In these cases the production capacity could be allocated to other customers and/or products, and in addition to the production costs, also the costs of carrying excess inventory and in the worst case, scrapping, were avoided. In one instance during the tracked period it was agreed that the duration of the event was extended to compensate for the underperformance. Once, JEM identified that the customer order for an event was lacking. The customer placed an order after having been informed on the issue, thus JEM secured these shipments in this situation which might have otherwise resulted to lost sales.

Table 5-2: Joint Event Management benefits in Kraft Foods UK (Oct 2004-Apr 2005).

Type of Benefit	Instances	Proportion (%)	Total Value (£)	Proportion (%)
Unnecessary production avoided	8	38,1	766 487,00	56,6
Incremental sales opportunities	11	52,4	472 267,13	34,9
Promotion period extended	1	4,8	83 614,80	6,2
Lacking shipments delivered	1	4,8	31 623,00	2,3
Total	21	100,0	1 353 991,93	100,0

Naturally the reported gains are not pure savings or incremental sales resulting fully thanks to JEM, because a part of them could probably have been reached also with the more reactive, traditional way of managing promotions. Also the way of defining and valuing a benefit is somewhat controversial, and rather computational than exact, but even though it is clear that the shift to the new model has been beneficial both to the company and to its customers. In qualitative terms, higher consumer satisfaction, reaching one set of agreed numbers, extra revenue both to Kraft and retailer, reduced inventory levels, significantly reduced waste level, better sales and supply alignment, and better production planning are listed in the benefits of JEM in the project documentation.

The biggest challenge of the JEM roll-out was updating the **skill sets** of people who run the process. In addition to the good customer service skills, it is critical that the people who use the JEM application understand what is driving the numbers that are being populated by JEM and are comfortable with analysing them. Thus it is really important to pay enough attention

on who shall be the operators of JEM and what kind of guidance they need. In the early phases of the UK project, Customer Service Coordinators were using a specific spreadsheet for JEM and had become comfortable with it, but when it was time to move on to use the JEM platform, the time needed for the transition was probably underestimated.

The risk of **information overload** and **lack of time** are also typical problems of the retail event management process. To avoid information overload, it is important to consider carefully exactly what kind of information is needed from the customer instead of asking for all the possible information, as without proper analysis the information itself is worth nothing. Keeping monthly meetings with the customer requires investing quite a lot of time into the project especially as the Kraft JEM team operates in three different categories (cheese, coffee, convenient meals) and thus each customer team within Kraft has got several contact persons on the customer's side. To enable efficient working practise, the goal is to try to arrange meetings with all the category managers on the same day one after another. To further mitigate the risk of lack of time, it is important to have top management commitment for the project so that additional personnel resources are available for the project, if required.

Selling the benefits of JEM internally on different organizational levels is really important to gain a real commitment for the project, thus the importance of tracking and capturing benefits systematically cannot be underestimated. The CPFR/JEM development process is of an iterative nature, aiming at getting even closer to the customers, and due to the on going change the people within Kraft must become and remain really motivated to change and develop their working practises continuously. All in all, the current sophisticated joint event management practise in Kraft Foods UK is at the same time an impressive example both of the possibilities of collaboration and of some of the pitfalls that can hopefully be avoided when rolling out similar projects in other countries.

5.6.2 Joint Event Management in Sweden

Kraft Foods Sweden started a JEM pilot project with its largest customer in 2003 utilising the experiences of Kraft Foods UK. So far the project has been somewhat less lucky than the UK one: due to big organizational and personnel changes in the customer's organization, the plans have neither been finished nor implemented. Nonetheless, some valuable insights and lessons learnt during the project can be helpful in developing the Finnish version of collaborative retail event management practise. Possibly, they may also help in Sweden when relaunching the project in the near future.

Snacks were chosen as the pilot category for two reasons: they take a lot of space and a lot of the volume is sold during the campaigns which results in the out-of-stock situations being a big problem. Volume was the criterion used for choosing the events that were to be included in JEM. No more specific criteria were defined in the early phases of the project. A part of the problem to be solved by the JEM project was also that Kraft Foods Sweden did not really follow up its various campaigns and events. The customer was expressing a similar concern: they knew what they were selling but they did not really follow it up systematically. This is what was wanted to be reached by JEM initiative.

Following the UK example, the Swedish JEM team consisted of representatives of two Kraft departments: Sales and Supply Chain. From the customer's side Category Management (responsible for choosing the retail events that will be executed) and Purchasing (belongs to the Logistics department, responsible for placing the actual orders) were involved. The plan was to integrate also Kraft Category Management and Supply Planning in the process, whose knowledge could be very valuable for the project. The production and raw material suppliers were outside of the scope of the project.

The greatest benefit of the project was experienced to be getting the people within the customer's organization to talk to each other so that everyone in the process was in touch with everyone. Similarly, the alignment within Kraft improved, and the understanding of the retail event process as a whole improved in both organizations. The customer's concern used to be that their departments did not communicate internally enough: someone just made an estimate of the volume and left it for someone else who placed the order and could change the forecast considerably without informing the others of the new situation.

Also in Sweden the working process was to be based on 30-60-90 meetings where all the four departments were represented. In practise, a meeting took place every month, and events in different phases were discussed each time. The aim was to keep these meetings regular and clear from issues other than the events in order to ensure that the focus really remains on them, not on late deliveries or any other routine issues that can be sorted out on the phone immediately when they happen.

From the perspective of a single retail event, the working process consists of seven phases (Figure 5-12). The process begins when the campaign is committed, after which an internal event analysis is conducted. The results of the analysis are discussed in the 30-60-90 meetings, although continuous updates can be made on the phone between and after meetings,

if needed. When the event execution begins, as soon as there is information on shipments and POS sales available, these will be analysed to track if the event is performing as forecasted. Eventually, the final results of the event are assessed in the post event analysis phase.

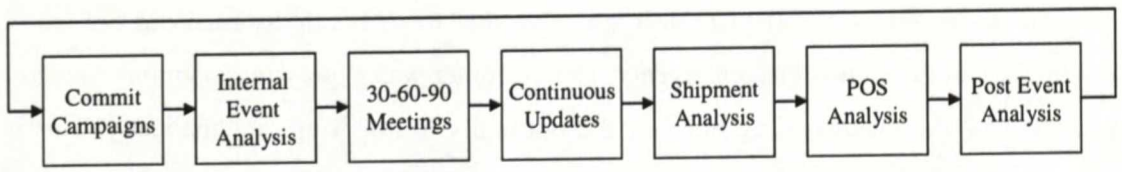

Figure 5-12: Joint event management working process in Kraft Foods Sweden

On a daily basis, Kraft Sales and the customer's Category Management are in touch with each other, and the natural contacts of Kraft Supply Chain are Purchasing and Logistics people of the customer organization. If there were, for example, production problems, the factory would inform the Supply Chain people who then would inform Sales. In the case of severe problems that would significantly complicate or prevent executing an event, Sales would contact customer's Category Management and look for an alternative solution. If the production problems were only temporary and less severe, it would probably be enough that Supply Chain department would contact the customer's Purchasing contact person and suggest altering slightly the order schedule and phasing of the volume.

Before the events, the volume estimates were discussed in the collaborative meetings. If the forecasts made by the customer and Kraft differed, the reasons for thinking differently were discussed. The customer might have some additional information that Kraft had not, for example point of sales data on previous events. In general it was also the customer's view, that Kraft representatives should have better chances to make the best possible forecast. They should know their products' demand behaviour, and they might have information on similar events from previous years and on the effect of different kinds of advertising and promotions on the volume. Also the maximum production volume was received from the planners as an input to the discussion. However, the aim was not to commit to any fixed volume but rather to develop a shared approach, a common goal for the campaign. After agreeing on the volume estimate, the next step was to start planning in a dialog with the customer when the goods should be delivered. The plan was to do some kind of phasing for the shipments for each campaign week.

One of the risks of the JEM project was that in an extreme case the sales might actually decrease because working better with the customer might reduce the amount of leftovers after

the retail event. This might raise opposition especially among the Sales people as the volume targets are their most important key performance indicator. However, if too much volume is sold to an event and there are lots of goods left after the campaign, with the current approach Kraft may need to give a rebate to the customer to get rid of the products. This may lead to a situation where the profitability of the event shrinks considerably. To get everyone involved truly committed to the project, it would be essential to be able to present a realistic estimate of the possible incremental sales and prove that the new revenue logic really is beneficial both to Kraft and to the customer. Naturally also the closer relationship with the customer belongs to the positive consequences of the JEM practise and shall be included in the list of benefits.

In Sweden there have so far been no plans for buying any special software. Instead, a compact Excel spreadsheet was supposed to be filled in with the collaboratively agreed set of numbers and other event details: what is the idea of the campaign, when does it take place, when do the deliveries start, how much is the volume and possibly some comments on the item level. During the event the volume was followed up on a weekly basis, for example from the point of view of what shall be done if the customer is ahead of the sales targets or buying less than expected. It was planned that after the event both the parties would do an internal analysis for which the information collected in the spreadsheet provided a relatively good basis. The outcome of the analysis and the reasons for it were to be discussed in the next meeting.

The JEM project in Sweden has not got so far that they would have been documenting the experiences and key lessons learnt, but already the storing of the spreadsheets and analysis centrally would be helpful for planning future events. At the moment, one of the problems is that Category Managers collect the customer specific volumes and feed the Supply Planner with the aggregate forecasts that are stored in the ERP system only for the whole Swedish market, not on the customer level. It would be possible to write manual comments in the system but this is currently not the practise, and even starting to do so would not be enough to make tracking convenient on the customer level.

At the beginning of the project another challenge was that the customer's opinion was that if Kraft wants POS data, Kraft must pay for it. However, the thinking at Kraft was that if they do not get the data, they cannot do what JEM is supposed to. In the internal discussions, the Supply Planners brought up that they would like to get the stock levels of stores and distribution centres to be better able to anticipate future demand compared to the current situation in which they only knew the shipments from Kraft but not how much stock was left

at the customer's warehouses. The stock level data was also planned to be utilised so that a Kraft person could call the customer and ask if it was time to order a product they were running out of.

Later on, Kraft started to get some data from the customer. The following challenge was that there were not enough internal resources to analyse the data properly. In Sweden the idea was that Customer Service Manager would be the project coordinator responsible for the process, driving it and joining the meetings together with Account Managers, but looking at the figures and doing the analysis on a daily basis would not have been done by her. By the time of the interview, it was not clear yet who in the organization would have adequate time for the analysis or where could the extra resources be got from, so the data that the customer submitted was not analysed as thoroughly as it might have been.

Avoiding this kind of situation is probably one of the most important lessons learnt: Before asking for any additional data, such as POS or customer stock levels, the required internal resources and skills within the Finnish organization must be firstly estimated realistically and ensured. Also it would be important to define clearly for what purpose the information is needed and ask only for the relevant, useful data to avoid information overload and unnecessary work. In Sweden the POS data was seen as mainly useful for the tracking purposes of Sales department, and not too much possible value for the supply side was really seen as the way of thinking was that during the campaign it will be too late to adjust the factory.

It could be stated, though, that any new information arising either in the collaborative meetings even close to the event or after its start for example in the form of POS data may be actually useful also for managing the product supply. Delayed commercial data that can be bought from market research companies, such as ACNielsen, can be used well or at least satisfactorily for analysing the event afterwards. On the contrary, the close to real time POS data might allow the production still to be finetuned if a big event is clearly over- or underperforming, or at least an alternative use for possible excess production could be planned earlier than otherwise. The snacks events may be of too short duration for this kind of adjustments, but for example in the case of Christmas confectionary, there might be more to gain. Furthermore, if the promoted article is in the standard assortment of the wholesalers, the information on the promotional performance could be taken into account when planning the next routine replenishments after the event.

To sum up, the issues highlighted by the Customer Service Manager of Kraft Foods Sweden were the value of JEM for building the relationship with the customer, and how important it is to discuss the issue internally and help people to understand what JEM is about and what is wanted to be achieved with it. The interviewee also brought up several times that the biggest benefit of JEM so far was the increased communication within the customer's organization, and that how JEM shall look like in the end depends on the customer. In Sweden, collaboration would make sense with three biggest customers, and a somewhat similar JEM roll-out was planned to be replicated with the other two customers, although they might be less formal collaborative development projects and not necessary explicitly called JEM.

The issues concerning the JEM execution in Sweden that sounded to be still somewhat unclear and thus slightly worrying were that there was no clear idea of how time consuming the implementation of the JEM process would be in the long run, and for which purposes and by whom the POS data would be used in practise. Additionally it was somewhat questionable if starting a complex POS data sharing project right away is too ambitious an approach. Especially in a situation in which the root cause of the problems may actually be inadequate communication both within and between the participating organizations, a smaller scale process improvement project might be a better starting point.

As the interviewee said, "*JEM is not rocket science*" and there is no point in trying to turn JEM into it. Thus following the next simple rules might be helpful in avoiding some of the pitfalls and risks of earlier JEM projects, when rolling it out in Finland:

- Set concrete and **realistic targets** for the project.
- Define the **scope** of the project carefully and plan the **roll-out** and **implementation** in detail.
- Ensure **adequate resources**: both **time** and **skills**.
- Define **clear roles** for people involved in the process.
- Sell the initiative both internally and to the customer in order to ensure **commitment**.
- Document the **lessons learnt** regarding both the events and the process itself.

These empirical findings are quite similar to the phenomena described by Korolainen (2003) and the guidelines for collaborative retail event management provided in chapter 3. Next more discussion will follow on the managerial implications and recommendations that can be given for the case company.

6 Recommendations

As has been illustrated above, the current retail event process and practices of Kraft Foods are not quite ideal. In this chapter, it will be elaborated upon how collaborative planning and forecasting and other kinds of internal and inter-company collaboration might help to manage events better. Several concrete steps can be identified to improve the situation.

In the short term, the emphasis in retail event management shall be in improving coordination, increasing right kind of communication and building collaborative relationships. For this, no significant capital investments are necessary. The only requirement is to ensure that the people involved in retail event processes have adequate work time, information and skills and - maybe most importantly - willingness to collaborate.

In the longer term, it is very important to try to affect also the other root causes of current problems and supply chain inefficiencies than the lack of coordination and collaboration. The short term steps introduced above can be very effective in getting along with the symptoms of the problems and helpful in handling the problematic every day situations, but if there is no effort to change the givens, the approach may remain reactive rather than proactive.

Based on the literature review and the real life case examples from Kraft Foods UK and Kraft Foods Sweden, two concrete tools were developed as a part of this study to facilitate successful retail event planning and execution and to improve coordination of marketing and supply chain activities. These are an event calendar and a retail event process chart, both of which are easy-to-use Excel spreadsheets. The new tools will be presented next followed by a brief commentary on further recommendations.

6.1 Event Calendar

The event calendar (Appendix 3) is a tool for storing the information on the retail events centrally. A separate event calendar will be needed for each category, and Category Managers will have the main responsibility for updating the calendars of their categories with the event information provided by Customer Business Managers. The event calendar consists of a table in which the events can be summarized and a Gantt chart illustrating graphically the event landscape and the timing of the events during the year.

The event calendar spreadsheet contains columns for storing a description of the event, the segment of the promoted products and other details of the event. The retail chain in which the event is executed, the wholesaler who takes care of the distribution and the person responsible for the event within Kraft are also filled in. Regarding the volume there are three columns: first of all the forecasted volume of the deliveries to customers, secondly the POS sales of the promoted product in the retail chain during the event period (filled in after the event) and thirdly a reference volume figure that is an estimate of how much the POS sales would have been without the event, for example the POS sales of the respective time period in the previous year if there was no event taking place then. Finally, there is a column for the status of the event (planned/agreed), and the start and end weeks of the event.

The event calendar is a valuable tool for several departments. From the Customer Marketing perspective, it will provide the Category Managers with an overview of what is happening in the category as a whole. The event calendar can be used as a work list on the events to be analysed, and Category Managers can also use the calendar when they are analysing the sales results in general. For example, by having a quick look at the retail events carried out in a certain segment, they can better understand if the changes in market shares between retail chains are temporary fluctuations or actual trends.

As the Supply Planner is the interface between Sales and Production, it is essential that she has got an extensive view of the event landscape too. The Customer Business Managers will naturally need to include their estimates of incremental sales from retail events to their forecasts also in the future, but collecting the information to one compact spreadsheet helps the Supply Planner to better capture the need for special arrangements, like packaging material replenishments, early enough. The event calendar may also be helpful when interpreting the forecast figures and tracking errors. For instance, sometimes the unexpectedly high forecasts can be typing errors, and on the other hand, it is not unprecedented that the Sales department would have forgotten to update the forecasts in the system in time.

For the Customer Business Managers, the event calendar will be a tool for planning the retail events and especially for forecasting their volumes. Similarly, Marketing and Trade Marketing can follow up the coverage of retail events and other marketing activities. The Sales Manager and the Sales Analyst need to know as well what is going on in terms of events so that they can ensure the Customer Managers on the field have correct instructions and sales

targets. Moreover, the Controllers and Management group can utilise the event calendar when tracking event and account performance and profitability.

6.2 Retail Event Process Chart

The retail event process chart was designed to ease managing retail events and scheduling tasks that need to be carried out during the process. As a basic retail event process is quite different from a more complex special product event process, two different versions of the chart exist (Appendices 4-5). The idea of the charts is that they contain all the possible tasks during a retail event process. Regarding each task, the persons who are responsible for it at Kraft, in the customer organization and at the 3PL partner, are named, and the number of days before the event begins in the stores is estimated. By typing the start date of the event into the relevant cell the spreadsheet automatically calculates approximate deadlines for each task.

As not all the tasks always need to be executed, the chart works rather as a check list and starting point for the planning rather than as a fixed structure of the process. For example, some of the tasks only need to be carried out when doing trade with regional cooperatives. Also the timing of the tasks may vary a lot depending on the nature of the event, and thus the parameters shall be reviewed when starting to plan the event.

When the process chart has been carefully filled in, it is easy for anyone involved in the process to grasp it as an entity and check the timing of his own tasks. Especially in the case of special product events, after the customer has committed to a retail event, the event details and schedule need to be gone through with all the employees participating in the special product event execution. A special product event meeting is the central forum for this. The crossfunctional approach and the attendance of all parties improves the understanding of the big picture and ensures that everyone is aware of and following the same agreed goals and timetable.

To take advantage of the new tools, some new working practises are needed in the event process: Monthly meetings between Category Manager and each Customer Business Manager are needed for updating the category-specific event calendars and going through the analysis of previous events. The Category Manager also needs to join the meetings of Supply Chain department once in the while to share the information gained in the periodical meetings with Customer Business Managers. The event review should be carried out as soon as possible

after the event because otherwise some important insights of the event may be forgotten. The field sales force would be the key to getting feedback from store level.

6.3 Further Recommendations

As availability of foil and other packaging materials has been one the most problematic areas in retail event execution, actions shall be taken to tackle this problem. Currently the **lead time** for foil deliveries is practically three months, and the **reliability** of the supplier has not been too good. The first thing to do would be to express the dissatisfaction to the supplier in a constructive way and discuss the possibilities to fix the problems and improve the cooperation. **Collaborative relationship** and aim for mutual benefits should exist also with the suppliers, not only with the customers. If needed, another option would be to check if there are alternative, more flexible and reliable suppliers available on the market, but changing the supplier might not be the solution as the problems may arise at least partly from the inadequate communication and unrealistic requirements. Learning to know the supplier and its processes better and vice versa might already help a great deal and be the starting point for tighter cooperation with the key supplier.

Standardization of Nordic products is an on-going project and shall be continued as far as possible. An additional recommendation is standardizing the retail events in the Nordic countries to mitigate the problems with the special products. When using the same special products as campaign products in the whole Nordic market, the variation in consumer demand in different countries would be partly hedged and the risk for left over raw material or excess inventory of finished goods would be significantly lower.

Another possibility worth examining is **modularity**, in this case meaning turning normal products over to special campaign products after the production later in the process. Customization could be done, for example, by altering copacking materials, like pallet covers or corner paperboards with special prints. Furthermore, when utilizing modularity, if the campaign sales were going well, more normal products could be converted into special products. Respectively, if the campaign sales were low, the rest of the normal products could be sold after the event as such. Executing this kind of events would mean an end for the problematic special foil orders and again increase flexibility. Naturally some special materials would still be needed, but their cost is likely to be lower and the savings in scrapping costs of campaign products significant.

7 Conclusions

The aim of this study was to examine the retail events taking currently taking place in the retail industry, their demand patterns and logistical implications, and look for solutions for managing the events better in a collaborative manner. The research problem of the study was *what determines retail event performance in the supply chain and how can it be improved by supply chain collaboration.*

In order to answer to this question, three objectives were set. The first objective was to give an overview of the existing research on retail events and to critically review retail events as both a logistical and organizational challenge. The second objective was to build a framework for analysing retail event performance. The third objective was to analyse the new, challenging situation of the case company, a global food manufacturer, in terms of retail events applying the framework to the salted snacks category and giving some guidelines for collaborative retail event management.

All the three objectives have now been reached. To conclude the study, the most important theoretical findings and empirical results will be briefly summarized. Finally, some potential topics for future research are listed.

7.1 Theoretical Findings

The first central finding of the literature review was that significant differences in promotional response between brands and across categories have been found in previous academic research. Briefly, retail events should get the best response in categories with high household penetration and in which there is a relatively low number of brands (low competitive intensity). The promotions work better for brands with lower market shares. The response is steeper if the discounts are high and more infrequent. Finally, bulky and perishable categories may get a lower response.

Brand switching, store switching, category expansion and purchase acceleration were named as mechanisms of promotional sales in the body of relevant literature. An additional fifth mechanism, variant switching, was included in the framework developed in this study. Depending on the category characteristics and market situation, these mechanisms were found to have eight different positive and negative side effects on the incremental profits of manufacturers and retailers.

To summarize, the impact of variant switching is negative both on manufacturers and retailers as the promoted products cannibalizes sales of full prices products. Brand switching has got a positive impact for the manufacturer, whereas for the retailer it has either no impact or a negative impact if the sales of products having better margins shrink. On the contrary, store switching and increased store traffic have a positive impact on the retailer's sales, but for the manufacturer the decrease in sales in competing stores has no or a slightly negative impact. The side effects of category expansion on the manufacturer depend on in which categories the manufacturer is operating, and similarly on the retailer category expansion may have either a positive side effect, if the sales of complementary categories increase, or a negative side effect, if the sales of substitute categories decrease. Lastly, the effect of purchase acceleration can be either positive, if the purchases become more frequent due to impulse purchases, or negative, if stockpiling is possible and the accelerated purchases are borrowed from the full priced future demand. The impact of the last effect is similar on the both parties.

When assessing event profitablity, the incremental sales revenue and the incremental costs caused by the event should be compared. The total incremental revenue equals the revenue from the event sales plus/minus the impact of the side effects minus the revenue without the event. On the cost side, all the added supply chain costs that are not included in the product's standard costs, for example resulting from additional stock-outs, excess inventory and special event requirements, must be taken into account as incremental event costs in addition to the marketing expenditures.

Supply chain collaboration is needed to ensure successful retail events at a minimal cost. Internal collaboration is an essential prerequisite for all collaborative projects with external parties. The original, extensive and complicated ECR and CPFR processes are likely to be too heavy in a small market, such as Finland, but the concepts include many valuable insights than can be taken advantage of when applied in a sensible way.

7.2 Empirical Results

In the empirical part of the study, the developed framework (which was built based on the literature) was applied. It was analysed how the promotional mechanisms work in the potato chips segment of the salted snacks category. Based on the theoretical framework and the empirical observations, the conclusion is that retail events fit well to the snacks category. In the example of a retail event, the negative side effects of promotional mechanisms were very small in relation to the increase in average of about 50 percent in the weekly sales of Kraft

potato chips during the event compared to the respective weeks in the previous year. The most important sources of incremental sales are category expansion with its positive side effects and purchase acceleration which in this case is not likely to lead to stockpiling behaviour.

The biggest problems in the case company's current retail event process were found to be insufficient internal communication, fragmented event information, lack of systematic event analysis, and delays in the packaging material deliveries. The lack of coordination and collaboration is the biggest individual factor distracting the flawless retail event process. Already today, relatively lots of communication exists between the parties and members of the supply chain, but there is no formal process and the approach is rather reactive and random than proactive and systematic.

Based on the literature review and the case examples from other Kraft organizations, two new tools (an event calendar and a retail event process chart) were developed to support internal and inter-company collaboration in retail event management. Both of the new tools aim to provide seamless cooperation between functions and organizations. Getting rid of "stupid" mistakes would decrease the additional supply chain costs. Analysing both commercial and logistical event performance properly in a collaborative manner, and documenting the lessons learnt would be an effective way to improve the profitability of future events. In the longer-term, tighter cooperation is needed not only with customers but also with the key supplier.

7.3 Future Research

A potential topic for future research would be to test the framework developed in this study in other product categories. This would aim to determine how well it can be generalized, which of the promotional mechanisms are dominant in different kinds of categories and the identity and strengts of the related side effects of the mechanisms.

Another interesting area of future research is retail event forecasting and planning models. By conducting a more advanced quantitative analysis of retail event sales data, possible systematic patterns of promotional demand could be tracked and incorporated into the models that could provide support for estimating the event volume before the events. Also retail event profitability would need to be analysed quantitatively in more detail.

Lastly, it would be interesting to see what kind of developments there will be in the collaborative supply chain initiatives in the future and which of the ECR and CPFR applications will be the successful ones in the long run.

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8.2 Interviews

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Welsh Clare, Customer Service Manager, Kraft Foods UK, telephone interview, 29.4.2005.

Appendix 1: Interview Structure with Customer Business Managers

- What kind of retail events there are? What kinds of events are good?
- What is the best thing in the events? What is challenging or problematic?
- What kinds of objectives are there for events (profit, volume, market share, brand value…)?
- How is event profitability assessed before the event? How are the events chosen that are executed?

- Who initiates the events?
- Who sells the events and when?
- When does Supply Chain department become involved?

- Who does the forecasts and how?
- What kind of information is available?
- What is the most difficult part in forecasting?
- How are the tasks divided between Customer Business Manager and Supply Planner?
- How is the customer involved? How could the customer be involved?

- What kind of information flows are there: how are in touch with each other internally, who with the customer?
- How much discussion is there regarding logistics related topics (transportation, delivery schedule etc.)?
- What are the most typical problems in the execution?

- How are the events analyzed internally and with the customer after the events?
- How is the performance measured/assessed?
- What could be learnt from previous events? How are the lessons learnt documented?

Appendix 2: Interview Structure with Joint Event Management Pioneers

JEM benefits and costs
Problems/barriers/challenges faced in the project
Lessons learnt → What should absolutely be done/not be done in Finland?

JEM business process in practise
JEM tools (information systems etc.)

1. Front end agreement

- With how many customers is JEM currently implemented in UK? Since when?
- How interested have the customers been in JEM? Have they been willing to put efforts/invest in it?
- Which categories/products are included?
- What kinds of events are included (campaigns/promotions/product launches)? Who initiates the events? Who sells them and when?
- When does SC hear about the events/when do they become involved?

2. Collaborative forecasting

- Who does the forecasts and how? How much resources are needed (personnel/software/other investments)?
- What kind of information is available?
    - Kraft inventory levels and shipments?
    - customer distribution centre and store inventory levels?
    - POS data?
- How are these delivered, by whom and to whom? Is there special software in use for this?
- How is customer involved in the process?
- What kind of information flows are there? Who is in contact with whom internally and with the customer? Who all are involved?

3. Collaborative analysis

- What kind of analysis is there during the events?
- How is POS data used/processed? Who uses it? What are the key benefits of it (can the production be adjusted during the campaign, is it used for tracking errors in stores etc.)?
- What kind of follow up/debriefing is there?
- How are the events analyzed afterwards internally? How is performance measured?
- How are the events analyzed afterwards with the customer?
- What can be learnt from previous events? How are the lessons learnt documented?

Appendix 3: Event Calendar

Kraft Foods Finland

SNACKS EVENT CALENDAR

Planned

Agreed

Today 24.4.2005

Last Updated 20.4.2005

1-4

February | March | April | May

P3 | P4 | P5

EVENT TYPE	SEGMENT	RETAIL CHAIN	WHOLESALER	RESPONSIBLE	VOLUME	POS	REF	STATUS	START	END	5	6	7	8	9	10	11	12	13	14	15	16	17	18
MASS MARKETING																								
Print advertising	Potato Chips	Nationwide						Agreed	5	9														
TV advertising (communicating new design)	Potato Chips	Nationwide						Agreed	16	17														
INSTORE EVENTS																								
Instore event 1 (road show, competitions etc.)	Cross category	Nationwide		Trade Marketing Mgr				Agreed	5	13														
Tastings/samples of a recently launched product	Potato Chips	Retail Chain 2.1	Wholesaler 2	Customer Business Mgr 2	8 tons			Agreed	18	21														
SPECIAL PRODUCT EVENTS																								
Extra Size Product Line 1	Potato Chips	Retail Chain 3.1	Wholesaler 2	Customer Business Mgr 3	7 tons			Agreed	10	12														
Extra Size Product Line 2	Potato Chips	Retail Chain 1.1	Wholesaler 1	Customer Business Mgr 1	12 tons			Agreed	11	13														
Extra Size Product Line 1	Potato Chips	Retail Chain 2.1	Wholesaler 2	Customer Business Mgr 2	25 tons			Agreed	14	16														
Extra Size Product Line 1	Potato Chips	Retail Chain 2.2	Wholesaler 2	Customer Business Mgr 2	20 tons			Agreed	14	16														
FEATURED / PURE PRICE-CUTS																								
Product Line 2 (1,99e/bag)	Potato Chips	Retail Chain 1.2	Wholesaler 1	Customer Business Mgr 1	8 t			Agreed	9	13														
Product Line 5 (3e/2bags)	Nuts	Retail Chain 1.1	Wholesaler 1	Customer Business Mgr 1	8 t			Agreed	11	12														
Product Line 1 (4,5e/2bags)	Potato Chips	Retail Chain 1.4	Wholesaler 1	Customer Business Mgr 1	4 t			Agreed	15	15														
Product Line 1 (1st of May: 1,99e/bag)	Potato Chips	Retail Chain 1.2	Wholesaler 1	Customer Business Mgr 1	20 t			Agreed	17	17														
Product Line 1 (2bags/4,5e)	Potato Chips	Retail Chain 1.4	Wholesaler 1	Customer Business Mgr 1	4 t			Agreed	17	17														
Product Line 1 (1st of May: 5e/3bags)	Potato Chips	Retail Chain 2.1	Wholesaler 2	Customer Business Mgr 2	20 t			Planned	14	17														
Product Line 1 (1st of May: 5e/3bags)	Potato Chips	Retail Chain 2.2	Wholesaler 2	Customer Business Mgr 2	20 t			Planned	14	17														
Product Line 1 (1st of May: 5e/3bags)	Potato Chips	Retail Chain 2.3	Wholesaler 2	Customer Business Mgr 2	3 t			Planned	14	17														
Product Line 1	Potato Chips	Retail Chain 3.1	Wholesaler 2	Customer Business Mgr 3				Planned	5	8														
Product Line 6	Popcorn	Retail Chain 3.1	Wholesaler 2	Customer Business Mgr 3				Planned	5	8														
Product Line 1	Potato Chips	Retail Chain 3.2	Wholesaler 2	Customer Business Mgr 3				Planned	5	8														
Product Line 6	Popcorn	Retail Chain 3.2	Wholesaler 2	Customer Business Mgr 3				Planned	5	8														
Product Line 2	Potato Chips	Retail Chain 3.3	Wholesaler 2	Customer Business Mgr 3				Planned	5	8														
Product Line 6	Popcorn	Retail Chain 3.3	Wholesaler 2	Customer Business Mgr 3				Planned	5	8														
Product Line 4	Potato Chips	Retail Chain 3.2	Wholesaler 2	Customer Business Mgr 3				Planned	5	13														
Product Line 2 Catalog Product	Potato Chips	Retail Chain 3.3	Wholesaler 2	Customer Business Mgr 3				Planned	14	17														
Product Line 6 (4bags/2e)	Popcorn	Retail Chain 3.3	Wholesaler 2	Customer Business Mgr 3				Agreed	14	17														
Product Line 1 (1,89e/bags)	Potato Chips	Retail Chain 3.1	Wholesaler 2	Customer Business Mgr 3				Agreed	14	17														
Product Line 1 (1,99e/bags)	Potato Chips	Retail Chain 3.2	Wholesaler 2	Customer Business Mgr 3				Agreed	14	17														

Appendix 4: Basic Retail Event Process Chart

Task	Sales	Supply Chain	Other Kraft Functions	3PL Warehouse	Customer	Days Left Before Event	Dead-line	Done
EVENT PLANNING AND APPROVAL								
Specifying the event and preparing suggestion	Business Mgr					70	28.1.2005	
Presenting the event to the customer (both to the wholesaler and to the retail chains) and agreeing on terms and conditions of the event	Business Mgr, Category Mgr				Category Mgr	70	28.1.2005	
Approval of the retail chains	Business Mgr				Category Mgr	60	7.2.2005	
PREPARATION								
Updating campaign chart	Business Mgr, Category Mgr	Supply Planner				60	7.2.2005	
Setting aggregate volume estimate into the system	Business Mgr					60	7.2.2005	
SALES								
Explaining the practical details of the event to the sales force	Business Mgr, Customer Mgrs					55	12.2.2005	
Setting sales targets to the sales force	Sales Analyst					55	12.2.2005	
Reporting field sales continously during the sales period (electronically)	Customer Mgrs					10	29.3.2005	
Following up field sales weekly and updating the forecast, if relevant	Sales Analyst, Business Mgr					10	29.3.2005	
End of field sales	Customer Mgrs				Retailers	10	29.3.2005	
PRODUCTION AND COPACKING								
Informing the plant on the updated forecast		Supply Planner	Plant Logistics Mgr			60	7.2.2005	
Informing the 3PL warehouse on the possible additional copacking needs		Supply Planner		Team Leader, Warehouse Team		30	9.3.2005	
ORDER-DELIVERY PROCESS								
Orders from the wholesaler		Cust. Service Coordinator			Logistics Coordinators	3	5.4.2005	
Order(s) and picking list(s) to the 3PL warehouse		Cust. Service Coordinator		Order Processing		3	5.4.2005	
Deliveries from the 3PL warehouse to the wholesaler				Warehouse Team	Logistics Coordinators	2	6.4.2005	
Deliveries from the wholesaler to the retailers					Logistics Coordinators	1	7.4.2005	
Event begins at the retailers					Retailers	0	8.4.2005	
EVENT FOLLOW-UP AND ANALYSIS								
Rebating the retailers, if a discount agreed	Sales Mgr		Accounting Spec. Treasury		Retailers	-15	23.4.2005	
Collecting feedback from the field	Customer Mgrs				Retailers	-15	23.4.2005	
Analysing and assessing business performance	Business Mgr, Category Mgr				Category Mgr	-30	8.5.2005	

Appendix 5: Special Product Event Process Chart

Task	Sales	Supply Chain	Other Kraft Functions	3PL Warehouse	Customer	Days Before Event	Dead-line	Done
EVENT PLANNING AND APPROVAL								
Presenting category plans internally			Marketing Mgr, Brand Mgrs			300	12.6.2004	
Presenting customer plans internally	Business Mgr					230	21.8.2004	
Specifying the special product event and putting aggregate volume estimate into the system (eg. revised budget figure or preliminary forecast)	Business Mgr					220	31.8.2004	
Approval of the business proposition (official business propositions required if costs exceed 15000e), checking goals, profitability and rationality	Business Mgr		Controllers, Marketing Mgr, General Mgr			205	15.9.2004	
Checking the capacity availability with the plant based on the preliminary figures		Supply Planner	Plant Logistics Mgr			205	15.9.2004	
Checking the availibility of packaging materials with the plant (foil, cardboard etc.)		Supply Planner	Plant Logistics Mgr			205	15.9.2004	
Preparing event presention material (if relevant)	Category Mgr		Marketing Mgr			200	20.9.2004	
Presenting the event to the customer (both to the wholesaler and to the retail chains)	Business Mgr, Category Mgr				Category Mgr	190	30.9.2004	
Approval from the retail chains	Business Mgr				Category Mgr	160	30.10.2004	
PREPARATION								
Internal campaign meeting: agreeing on process responsibilities and schedule	Business Mgr, Sales Assistant, Category Mgr	Supply Chain Mgr, Supply Planner, Cust. Service Coordinator				158	1.11.2004	
Sketching "plan B" for possible demand swings		Supply Chain Mgr, Supply Planner				158	1.11.2004	
Presenting the event to the sales force, if relevant ie. approval from regional co-ops required	Business Mgr, Customer Mgrs					155	4.11.2004	
Updating the forecast, feedback from the sales force	Business Mgr, Customer Mgrs					155	4.11.2004	
Checking/opening required masterdata (Nova, Pris, SAP, Sinfos)		Supply Planner	Marketing Asst, Masterdata Coordinator			150	9.11.2004	
Checking/opening customers' masterdata	Business Mgr				Category Mgr	150	9.11.2004	
Confirming the capacity and packaging material needs with the plant	Business Mgr	Supply Planner	Plant Logistics Mgr			150	9.11.2004	
Packaging material replenishment order (if required, lead time about 3 months!)		Supply Planner	Buyer			150	9.11.2004	
Presenting the event to the regional co-ops and getting their approval, if relevant	Customer Mgrs				Regional co-ops	90	8.1.2005	
SALES								
Explaining the practical details of the event to the sales force	Business Mgr, Customer Mgrs					90	8.1.2005	
Setting sales targets to the sales force	Sales Analyst					90	8.1.2005	
Delivering sales material to the field (ideally during the sales meeting)			Trade Marketing Mgr, Marketing Assistant			90	8.1.2005	
Reporting field sales continously during the sales period (both electronically and by sending hard copies)	Customer Mgrs, Sales Assistant					60	7.2.2005	
Following up field sales weekly and updating the forecast, if relevant	Sales Analyst, Business Mgr					46	21.2.2005	
End of field sales	Customer Mgrs				Retailers	21	18.3.2005	
Putting together a distribution list on the final store orders	Sales Assistant					18	21.3.2005	
Final volume known -> if extra inventory, agreeing on next steps based on "plan B"	Business Mgrs, Senior Sales Mgr	Supply Chain Mgr, Supply Planner				18	21.3.2005	
PRODUCTION AND COPACKING								
Copacking material replenishment order (if required, lead time about 1 month!)		Supply Planner				90	8.1.2005	
Updating the forecast based on early sales	Business Mgr					60	7.2.2005	
Informing the plant on the updated forecast and confirming the production schedule		Supply Planner	Plant Logistics Mgr			60	7.2.2005	
Event meeting with 3PL warehouse: volume, copacking instructions, preliminary delivery schedule		Supply Chain Mgr, Supply Planner		Team Leader, Warehouse Team		60	7.2.2005	
End of production			Plant Logistics Mgr			21	18.3.2005	
Cases delivered from the plant to the 3PL warehouse		Supply Planner	W&D Supervisor	Warehouse Team		18	21.3.2005	
Copacking order to the 3PL warehouse		Supply Planner		Team Leader, Warehouse Team		18	21.3.2005	
End of copacking				Team Leader		7	1.4.2005	
ORDER-DELIVERY PROCESS								
Event meeting/telephone conference with the customer: volume, delivery schedule, special arrangements	Business Mgr	Supply Chain Mgr			Logistics Coordinators	18	21.3.2005	
Sending the distribution list on final store orders to the wholesaler		Cust. Service Coordinator			Logistics Coordinators	18	21.3.2005	
Official order(s) from the wholesaler and confirmation of the delivery schedule		Cust. Service Coordinator			Logistics Coordinators	15	24.3.2005	
Order(s) and picking list(s) to the 3PL warehouse		Cust. Service Coordinator		Order Processing		11	28.3.2005	
Deliveries from the 3PL warehouse to the wholesaler				Warehouse Team	Logistics Coordinators	4	4.4.2005	
Informing the customer's invoice processing on the special invoice and sending the distribution list to be attached to the invoice		Cust. Service Coordinator			Invoice Processing	3	5.4.2005	
Deliveries from the wholesaler to the retailers					Logistics Coordinators	2	6.4.2005	
Event begins at the retailers					Retailers	0	8.4.2005	
EVENT ANALYSIS								
Rebating the retailers, if a discount agreed	Sales Mgr		Accounting Spec. Treasury		Retailers	-15	23.4.2005	
Collecting feedback from the field	Customer Mgrs				Retailers	-15	23.4.2005	
Analysing and assessing logistical performance	Business Mgr				Logistics Coordinators	-15	23.4.2005	
Analysing and assessing business performance	Business Mgr, Category Mgr				Category Mgr	-30	8.5.2005	